Phillip 2024 Singapore Strategy

The Federal Reserve Got Your Back

SINGAPORE | STRATEGY

2 January 2024

Review: The Singapore market was down a muted 0.3% in 2023, clawing back the major outperformance and modest gains of 4% a year ago. Compared to other asset classes, Singapore stocks outperformed commodities but underperformed bonds and US equities (Figure 4). For the second consecutive year, the standout gainers were conglomerates Sembcorp Industries and Keppel Ltd (Figure 3).

Outlook: Singapore equities struggled in 2023. Slowing economic growth and peak interest rates hurt sentiment on banks' ability to maintain earnings (Figure 1). As we enter 2024, economic growth is not robust but a modest recovery is underway (Figure 5). Spearheading this recovery is inventory replenishment. However, we worry about sustainability as end-demand remains lacklustre. We believe the US consumer will be stretched by lower pandemic savings (Figure 6), slower job additions (Figure 7), rising debt (Figure 8), cutbacks in fiscal handouts (Figure 9) and the return of student loan repayments. We had primed ourselves for a modest recession in the US last year. This did not occur due to huge incremental spending by the US government, equivalent to a US$1.3tr deficit, or 3% of GDP (Figure 10). Furthermore, China's growth is sluggish, weighed down by falling investments and a moribund property sector. Still, we are optimistic on Singapore equities and bonds as we enter a monetary easing cycle. The Fed is not only prepared to cut rates three times in 2024 but also cut them pre-emptively. Given its recognition of a time lag in the transmission of higher interest rates to economic activity, it is willing to cut even before it senses a meaningful economic slowdown or inflation hits its 2% target. With a Fed ready to act, any economic slowdown will be backstopped by easier financial conditions. Singapore is likely to go back to trend growth of 1-2%. A modest recovery in exports, foreign direct investments, tourism and population growth will drive this growth.

Recommendation: Against a backdrop of slow growth and falling interest rates, we expect rate-sensitive assets to outperform. Sectors we favour are REITs, conglomerates and telecommunications. REITs will enjoy a triple boost of dividend yields more attractive than bonds, lower interest expenses and higher valuations as cap rates compress. If asset prices get reflated, deeply discounted Singapore REITs potentially have the highest upside. For conglomerates, electricity margins are likely to remain elevated due to low reserve margins. Additional capacity will only materialise in 2026. ST Engineering will ride rising global defence spending and increased stockpiling of weapons as geopolitics and conflicts escalate. We also like telecommunication as industry consolidation and cost pressures have allowed mobile operators to start raising prices. Telcos are structurally pivoting to higher-growth segments (IT services, data centres, cyber security), rightsizing their cost structures, and monetizing more assets. ASEAN consumer stocks reeled from rising inflation and weak consumer demand in 2023. We expect a rebound on the back of a healthier export sector and fiscal stimulus. We have added names with attractive valuations and dividend yields, cash-rich balance sheets and good earnings visibility to our model portfolio. They are Valuetronics and China Aviation Oil.

2023 performance

Figure 1: Most banks disappointed

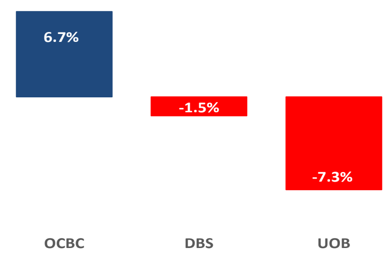


Figure 2: Worse index performers

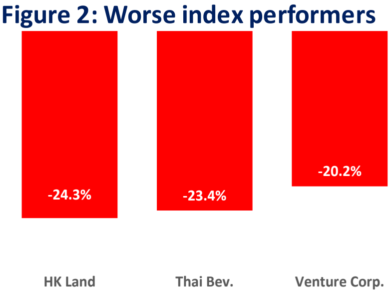
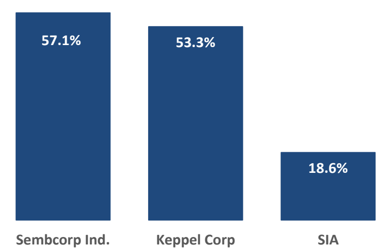


Figure 3: Electrifying gains



Source for Figures 1-3: PSR, Bloomberg

Paul Chew (+65 6212 1851)
Head of Research
paulchewkl@phillip.com.sg

The Phillip Absolute 10 Model Portfolio

Company	1M	3M	YTD	Rating	Target Px (S$)	Share Px (S$)	Upside	Mkt Cap (US$m)	Dvd. Yield
Yield									
Frasers Centrepont Trust	3.7%	3.2%	7.6%	**Accumulate**	**2.29**	2.26	1%	2,931	5.4%
OCBC	3.7%	1.5%	6.7%	**Buy**	**14.96**	13.00	15%	44,253	5.2%
Dividend / Earnings Growth									
China Aviation (New)	1.2%	-0.6%	-1.7%	**Buy**	**1.01**	0.88	15%	570	1.8%
ST Engineering	4.9%	-0.5%	16.1%	**Buy**	**4.50**	3.89	16%	9,176	4.1%
Thai Beverage	5.0%	-8.7%	-23.4%	**Buy**	**0.67**	0.525	28%	9,991	4.4%
Valuetronics (New)	7.2%	13.3%	14.4%	**Buy**	**0.70**	0.595	18%	185	4.0%
Re-rating Plays									
CapitaLand Investment	4.3%	1.9%	-13.2%	**Buy**	**3.68**	3.16	16%	12207	3.8%
ComfortDelGro	8.5%	7.7%	13.8%	**Buy**	**1.57**	1.40	12%	2,296	3.3%
Singtel	6.9%	2.1%	-3.9%	**Buy**	**2.80**	2.47	13%	30,874	4.0%
Keppel Corp.	6.0%	6.6%	53.3%	**Buy**	**7.52**	7.07	6%	9,437	4.7%
Average	5.13%	2.7%	7.0%				14%		4.1%

Source: Bloomberg, PSR; * prices as at 29 December 2023, average performance is for illustration purposes only. It is an equal-weighted portfolio of 10 stocks and excludes the cost of monthly rebalancing, transaction fees and dividend income. Upside computation excludes expected dividends.

2023 REVIEW

The Singapore market was down a muted 0.3% in 2023, holding on to the modest gains of 4% a year ago. Compared to other asset classes, Singapore stocks outperformed commodities but underperformed bonds and US equities (Figure 4). For the second consecutive year, the standout gainers were conglomerates Sembcorp Industries and Keppel Ltd (Figure 3). Utilities are enjoying higher valuations as they raise exposure to renewable energy. The re-rating is perhaps due to the high growth potential and future-proofing of returns.

4 themes for 2024

- ✓ 2 rate cuts in 2024
- ✓ Mild recession in the US
- ✓ Assets prices recover
- ✓ China economy is better than expected

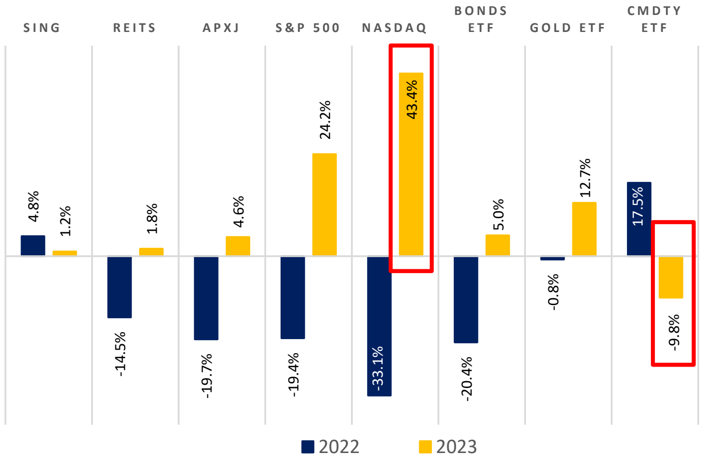
OUTLOOK

Singapore equities struggled in 2023. Slowing economic growth and peak interest rates also hurt sentiment on banks' ability to maintain earnings (Figure 1). As we enter 2024, economic growth is not robust but a modest recovery is underway (Figure 5). Spearheading this is inventory replenishment. However, we worry about sustainability as end-demand remains lacklustre. Our concern is weaker US economic growth in 2024. We believe the US consumer will be stretched by lower pandemic savings ((Figure 6), slower job additions (Figure 7), rising debt (Figure 8), cutbacks in fiscal handouts (Figure 9) and the return of student loan repayments. We had primed ourselves for a modest recession in the US last year. This did not occur due to huge incremental spending by the US government, equivalent to a US$1.3tr deficit, or 3% of GDP (Figure 10). Furthermore, China's growth is sluggish, weighed down by falling investments (Figure 11) and a moribund property sector. China is unlikely to contribute to global growth unless there is a major fiscal impulse by its government. Still, we are optimistic on equities and bonds as we enter a monetary easing cycle. The Fed is not only prepared to cut rates three times in 2024 but also cut them pre-emptively. Given its recognition of a time lag in the transmission of higher interest rates to economic activity, it is willing to cut even before it senses a meaningful economic slowdown or inflation hits its 2% target. With a Fed ready to act, any economic slowdown will be backstopped by easier financial conditions. The market is expecting six cuts, double the Fed's three. Disinflation underway in the US will provide cover for the Fed to cut. Singapore is likely to go back to trend growth of 1-2%. A modest recovery in exports, foreign direct investments, tourism and population growth will drive this growth.

4 themes for 2023

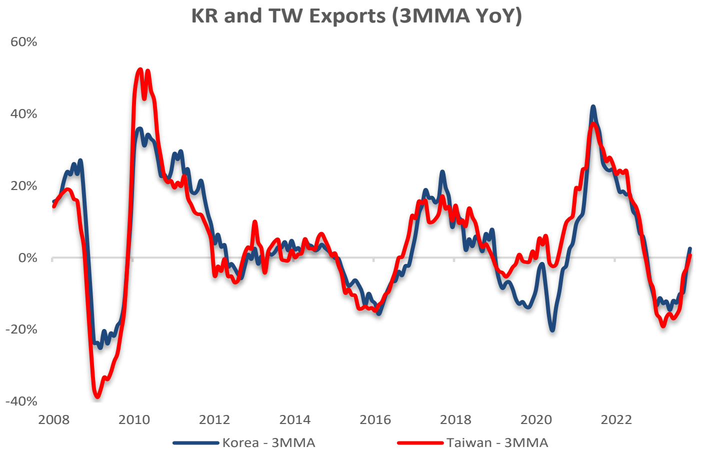
- ✓ Inflation peaked with rate cuts
- ~~✓ Mild recession in the US~~
- ✓ Interest rates modestly higher
- ~~✓ Rebound in China and tourism~~

Figure 4: Clawing back the massive outperformance in 2022



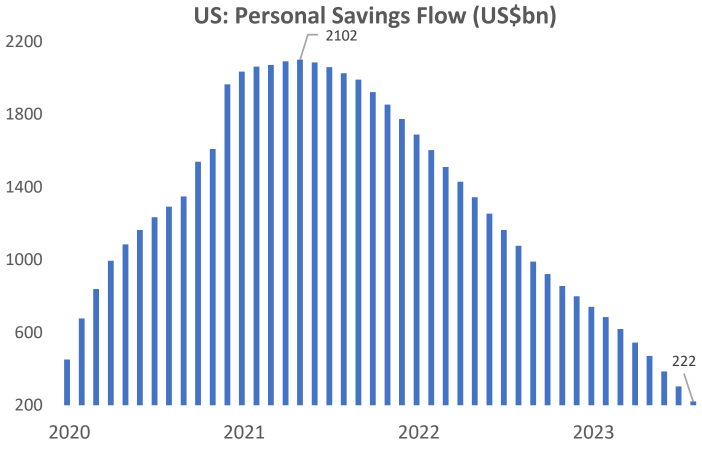
Source: PSR, Bloomberg, *Bonds ETF is iShares Investment Grade Corporate Bonds (LQD), Gold ETF is SPDR Gold Shares (GLD). Commodity is iPath Bloomberg Commodity Index ETN

Figure 5: Exports sector bouncing off the bottom



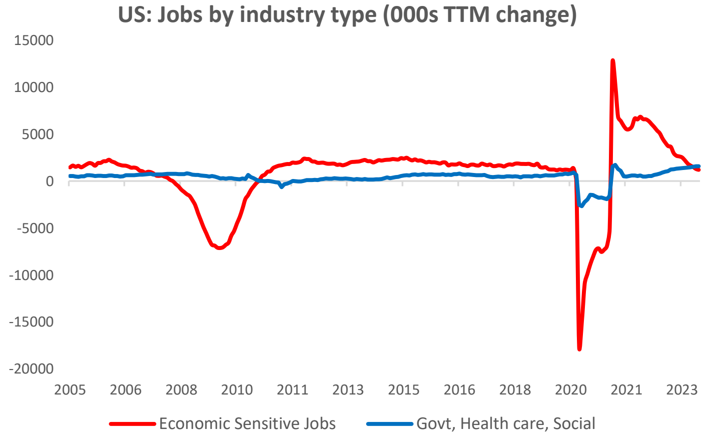
Source: PSR, CEIC

Figure 6: Pandemic savings depleting fast



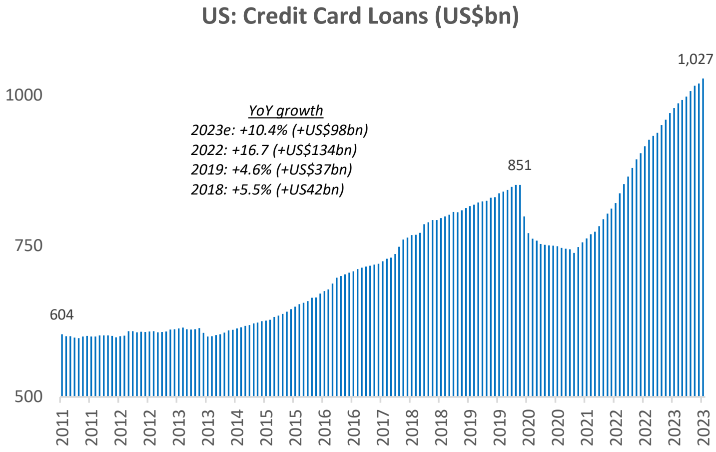
Source: PSR, CEIC

Figure 7: Economic sensitive jobs sliding fast



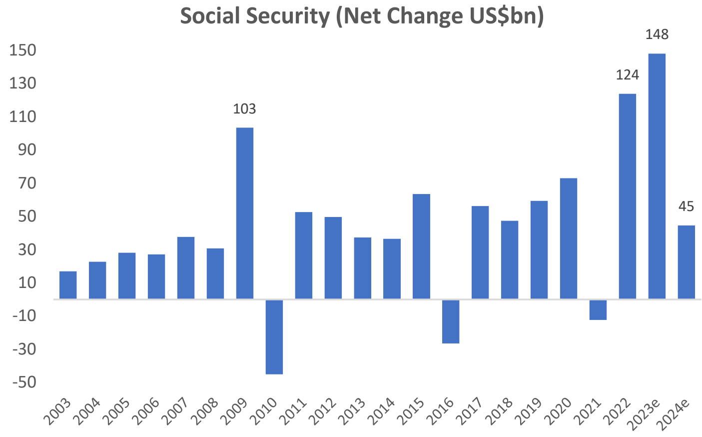
Source: PSR, CEIC

Figure 8: Expensive consumer debt pilling up



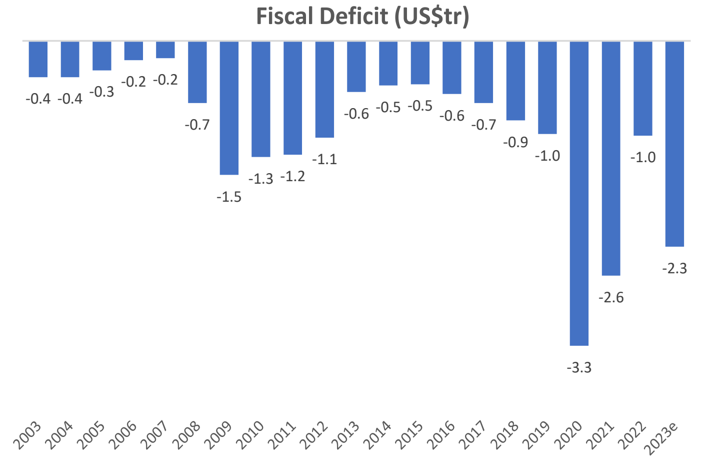
Source: PSR, CEIC

Figure 9: Around $100bn less increase in handouts for 2024



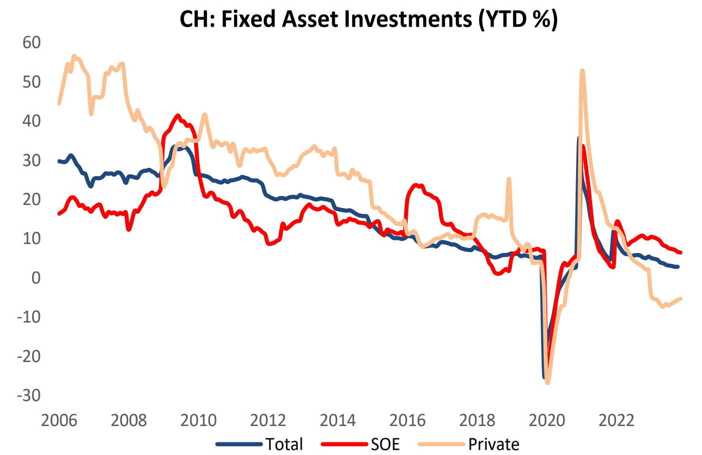
Source: PSR, CEIC

Figure 10: Fiscal boost larger than GFC



Source: PSR, CEIC

Figure 11: Lack of private sector investments



Source: PSR, CEIC

RECOMMENDATIONS FOR PHILLIP ABSOLUTE 10

The strategy of the portfolio is to generate alpha or absolute returns in a balanced portfolio. Using 10 stocks for a portfolio is highly concentrated. To avoid excessive volatility in our model portfolio, we add lower beta yield names. In our 2024 model portfolio, which is reviewed every quarter, the top 10 picks - The Phillip Absolute 10 - by category are:

a) **Dividend yields:** These are stocks to anchor the portfolio with less volatility and attractive dividend income. We view Frasers Centrepoint as malls with virtual monopolies near residential populations with good transport infrastructure. Suburban malls also offer consumers a lifestyle experience and resilient necessity spending. OCBC pays an attractive yield well supported by excess capital.

b) **Dividend/Earnings growth:** We added China Aviation Oil and Valuetronics for their strong net cash balance sheets and earnings visibility from air travel in China and new customers respectively. ST Engineering is riding on the growth of defence spending and a surge in aircraft utilisation. Thai Beverage earnings are expected to recover from fiscal stimulus in Thailand and improving economic conditions in Vietnam.

c) **Re-rating:** CapitaLand Investment is our exposure to falling interest rates and rising asset values. ComfortDelGro continues to reprice higher its bus and taxi services from rising costs and reduced competition. Singtel is enjoying higher mobile pricing from its associate companies and undertaking restructuring efforts to monetize assets and realign operating costs. Keppel Ltd is riding on stable electricity margins, re-rating towards asset-light business and further monetization of non-core assets.

Figure 8: Phillip Absolute 10

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Frasers Centrepont Trust	3.7%	3.2%	7.6%	**Accumulate**	**2.29**	2.26	1%	2,931	5.4%
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Source: Bloomberg, PSR

2023 performance review: Phillip Absolute 10

Our Phillip Absolute 10 underperformed the STI in 2023. Changes we made during the year:

1Q23 - Add: **Prime US REIT;** **Remove:** **Singtel**
2Q23 - Add: **FCT, PropNex, CLI;** **Remove:** **Prime US REIT, Del Monte Pacific, HRnetGroup**
3Q23 - Add: **Thai Beverage;** **Remove:** **DBS**
4Q23 - Add: **ST Engineering, Singtel;** **Remove:** **CDL, SGX**
1Q24 - Add: **Valuetronics, China Aviation Oil;** **Remove:** **CapitaLand Ascott Trust, PropNex**

Underperformers

The portfolio suffered from the major de-rating of Prime US REIT over fears of falling office property values and rising vacancy rates. Another large drag was the weak earnings reported by Del Monte Pacific and HRnetGroup. Following aggressive cooling measures targeted at high-end properties, CDL's share price suffered as it had to delay property launches. Despite benefiting from rising interest rates DBS and SGX share prices did not react positively.

Outperformers

Keppel Ltd was the largest gainer from successful divestments, jump in dividends, aggressive share buybacks and earnings growth from healthy electricity margins. Other gainers were ComfortDelGro as earnings recovered strongly from higher bus fees in the UK and a reduction in taxi rental rebates in Singapore. OCBC and PropNex attractive dividend yield supported share prices.

Figure 13: Monthly perf.

	Absolute 10	SING
Jan23	4.8%	3.5%
Feb23	-4.3%	-3.1%
Mar23	-4.5%	-0.1%
Apr23	4.5%	0.4%
May23	-5.5%	-3.4%
Jun23	2.1%	1.5%
Jul23	4.9%	5.2%
Aug23	-5.3%	-4.2%
Sep23	-0.7%	-0.5%
Oct23	-4.3%	-4.7%
Nov23	0.7%	0.2%
Dec23	6.1%	5.4%
YTD	-2.5%	-0.3%
Out/(Under)perf.		-2.2%

Source: Bloomberg, PSR,
Performance for illustration only. It is an equal-weighted portfolio of 10 stocks and excludes the cost of monthly rebalancing, transaction fees and dividend income.

Technical View - Singapore Equities

A gradual ascent

SINGAPORE | STRATEGY REPORT | TECHNICAL ANALYSIS

Figure 14: Monthly chart indicates the price still trades in the main uptrend channel

Source: TradingView, PSR

The monthly chart for Singapore Equities showed it mostly consolidated between 3.12-3.32 in 2023 as it continued to trade within the main uptrend channel established since 2021. The 3.38 level continued to act as a key resistance, confluent with the main uptrend channel resistance and a 200% Fibonacci extension level using the swing low of 1.97 and swing high of 2.55 formed in 2020. Moving forward to 2024, the price structure shows a potential upside towards the 3.45 level.

Figure 15: Weekly chart indicates near-term headwinds likely from a confluence of resistances

Source: TradingView, PSR

The weekly chart for Singapore Equities showed the price held the 3.14 support level at the July 2023 lows. It rebounded in 4Q23 to retest the breakdown of an uptrend support line in October 2023 at the 3.30 level. Given the price is currently trading near the confluence of several resistances - strong horizontal resistance area between 3.32-3.38, main uptrend channel resistance, and retest of an uptrend support breakdown, we believe it is likely for Singapore Equities to pullback in 1Q24 before recovering in 2Q24 towards the 3.38-3.42 area.

Conglomerate OVERWEIGHT

- Keppel and SCI's FY23e net profits were underpinned by strong energy demand and reduced industry capacity (Figure 16). STE enjoyed robust growth in aerospace MRO led by aviation recovery and a shortage of hangar capacity.
- Keppel and SCI are expected to focus investments into renewable energy solutions to maintain their pole positions in the domestic energy market and be first-movers in emergent technologies.
- We are **OVERWEIGHT** on the conglomerate sector. As dominant players in the energy and defence sectors, Keppel, SCI and STE enjoy defensive and growing earnings and strong operating cash flows.

2023 Review

A structured framework for power generation sector. To ensure sufficient generation capacity, the Energy Market Authority (EMA) introduced 1) a Centralised Process to coordinate the entry and exit of generation capacity; 2) centralised procurement of natural gas from 2024; 3) enhance regulatory requirements on electricity retailers; and 4) Temporary Price Cap mechanism (TPC) for energy price (Figure 17). The structured framework is net positive for Keppel and SCI - it gives greater transparency and visibility for new energy investments, reduces vagaries of input cost and energy price and provides greater predictability of cashflow and ROI.

Expanding renewable energy footprints. SCI and Keppel are plugged into Singapore's goal to transition away from natural gas (94.3% of feedstock currently) to 50% of supply from renewable energy by 2035. Amongst the investments are solar projects in Singapore and low-carbon electricity importation from the ASEAN region. Keppel will also complete the first hydrogen-ready power plant in 2028.

Subdued demand for real estate in China and Vietnam slowed home sales and land development projects. Net profits from real estate are likely to decline in FY23, though value impairment is ruled out as the book costs of these real estate assets are low.

New geopolitical tensions in the Middle East and Red Sea. The heightened unrest could fuel higher defence spending and stockpiling. Already worldwide defence spending had crept up by 6.3% CAGR in the last 2 years, compared with 1% annually from 2010-2020, according to Statista (Figure 20).

Outlook

Stable profit and cash flow from power sale. Keppel and SCI have locked in 100% and 95% of their energy sales on long-term contracts on cost-plus basis, respectively, which provide certainty of income and cash flow.

Higher share of renewable profits. SCI's renewable portfolio reached 13GW (+32.7% YoY) as at end 2023, heading towards 25GW at end 2028 (Figure 18). Keppel has 3GW of renewable assets and is a forerunner in electricity importation. A higher share of earnings from renewables could raise their valuation multiples and lower funding costs.

STE's congestion road pricing project will be earnings accretive in FY24e. TransCore is expected to contribute positively from FY24e, as it delivered the New York congestion road pricing project progressively from 2H23.

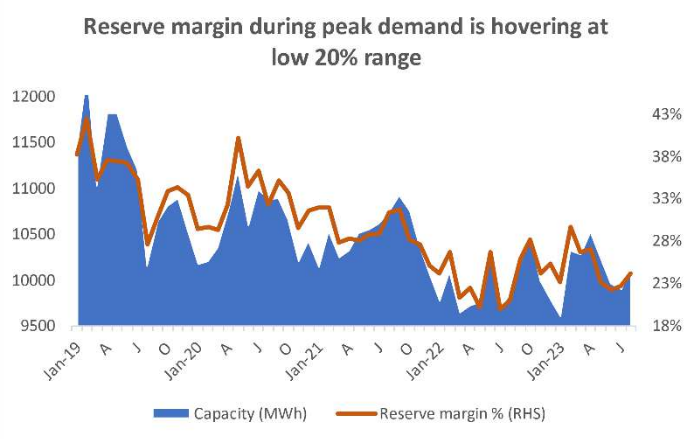
Recommendations

We **OVERWEIGHT** the conglomerate sector.

- **Keppel (KEP SP, BUY, TP S$7.52) Keppel's** asset monetisation exercise will be front and centre. The divestment of the legacy rig assets could return about S$4bn cash to Keppel. Other assets that could be monetised include M1, the data centres and real estate. With its fund management platform, Keppel is building recurring income on an asset-light model (Figure 19).
- **SembCorp Ind (SCI SP, BUY, TP S$6.00)** SCI's renewable earnings are projected to grow at a 6-year CAGR of 25%, as greenfield projects become operational. We estimate it would make up 50% of net profit in 2028 (FY22: 20%). Though ROE of 10% is lower than conventional energy's 15%, renewable earnings could command higher PE multiples.
- **STE (STE SP, BUY, TP S$4.50)** Heightened geopolitical tensions will drive an increase in spending and stockpiling of defence and cybersecurity products and services, thus driving STE's order wins going forward.

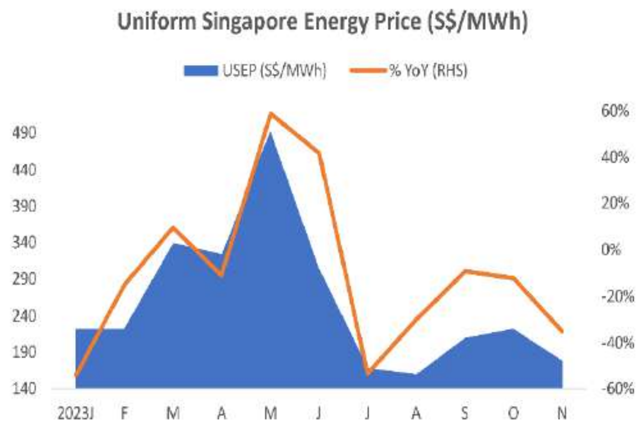
Peggy Mak (+65 6212 1852)
Research Manager
peggymak@phillip.com.sg

Figure 16: Reduced capacity and increased peak demand



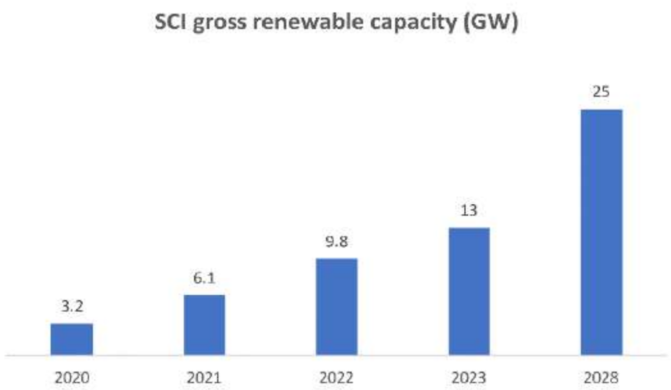
Source: PSR, EMA

Figure 17: The TPC mechanism was implemented to reduce the volatility in the USEP



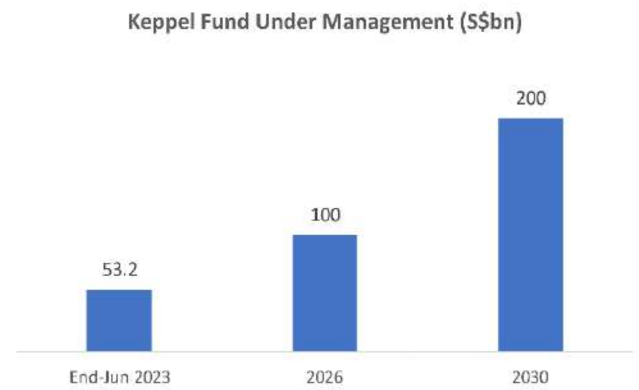
Source: PSR, EMA

Figure 18: SCI's renewable energy portfolio grew 32.7% YoY in 2023



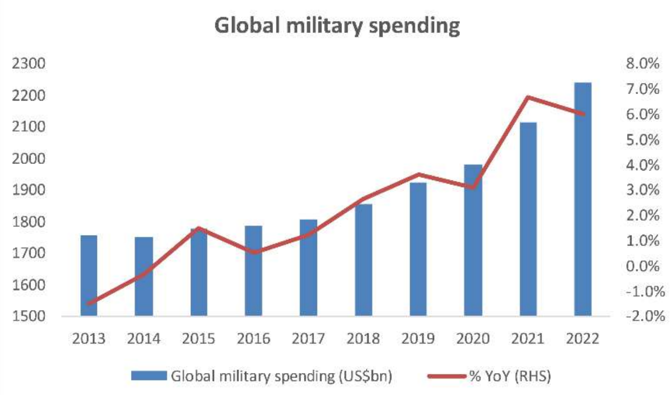
Source: PSR, company

Figure 19: Keppel is closer to its 2026 FUM target after the recent acquisition of Aermont Capital



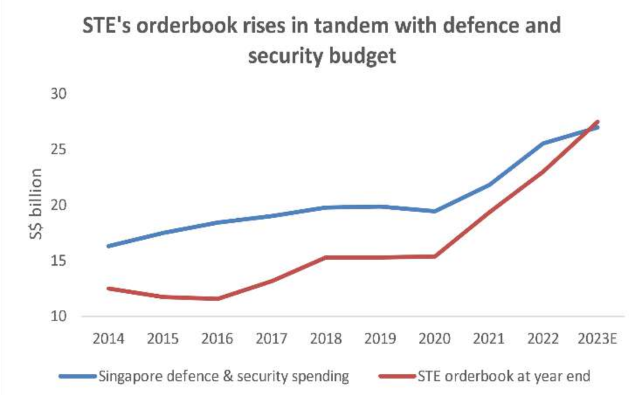
Source: PSR, company

Figure 20: Global military spending grew 6.3% CAGR over the last two years



Source: PSR, Statista

Figure 21: STE's growth is strongly aligned with the country's defence budget



Source: PSR, Singstat

Construction OVERWEIGHT

- Construction output grew 14.6% YoY in the first 10 months of 2023 (FY22: +15.8%), led by the ramp-up in residential developments. BCA projected FY23e construction demand at S$27bn-32bn, which will underpin output in the next 12 to 18 months.
- Operating margins of the construction companies are recovering, as they run down low-margin jobs that were secured pre-Covid. New tenders are building in higher costs of building materials and manpower. The risk of default is reduced, with 60% of demand from public projects. The only concern is the higher cost to employ foreign workers to take effect from Jan 2024.
- We are **OVERWEIGHT** on the construction sector and in particular, the building material suppliers. BRC Asia and Pan-United are dominant market leaders in the supply of steel rebars and ready-mixed concrete, respectively. A buoyant construction outlook and stronger S$ would be wind in their sails.

2023 Review

Output grew 14.6% in the first 10 months of 2023. Construction progress accelerated in 2H23 after the authority lifted safety restrictions at worksites in May (Figure 22). At the same time, contracts awarded also improved by 7.3% in the first 10 months (Figure 23). This will translate into output in the next 12 to 18 months.

Prices of building materials eased. The price of steel rebars began its descent from early 2023 and is currently about -20% YoY (Figure 26). Prices of cement and ready-mixed concrete (Figure 27) were fairly stable. Prices are still above pre-Covid levels and negatively impact margins of those contracts secured pre-Covid.

Higher cost for hiring foreign workers and construction methods. The bar for employing unskilled foreign workers will be raised from 1 Jan 2024, through a higher levy and lower quota. Public housing projects also mandate contractors to incorporate modular construction methods such as Prefabricated Prefinished Volumetric Construction (PPVC). Higher costs are likely to be passed to the customers.

Outlook

Strong pipeline for housing projects. According to URA, about 100,000 new public and private housing units will be completed between 2023 and 2025, 52% higher than 2020-2022 (Figure 25). A record 5,450 units were launched in the 1H24 government land sale programme, +33.3% YoY and +5.6% HoH (Figure 24). HDB has committed to launch 20,000-23,000 units per year through 2025.

Steel price is down 20% YoY, weighed down by China's sluggish fixed asset investments and weak property sector. However, we believe prices have bottomed. China has rolled out supportive housing policies and lower rates which could bring back confidence and revive construction activities.

Margins are likely to recover in FY24e in the construction sector, with stable material prices and a run-down of low-margined jobs mostly done in FY23e. Buoyant construction demand will feed into higher building materials consumption. Building material suppliers will enjoy operating leverage from higher volume. The stronger S$ also bodes well for net margins.

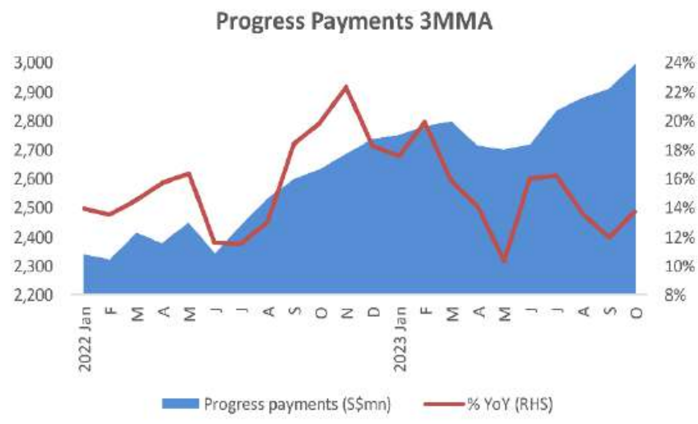
Recommendations

We **OVERWEIGHT** the construction/building material sector.

- **BRC ASIA (BRC SP, BUY, TP S$1.99)** Gross margin is expected to recover from 8.5% to 9.0% in FY24e when the volume of fabrication and manufacturing rises. An orderbook of S$1.3bn is underpinned by major public sector projects. Net gearing improved to 0.46x at end Sep 2023 due to strong cash flow.
- **PAN-UNITED (PAN SP, BUY, TP S$0.50)** Pan-U's low-carbon products could set it apart as the customers adopt and transit towards low-carbon solutions in their construction designs. Gross margin has been inching higher to 20%. The balance sheet is in net cash, with very strong free cash flow.

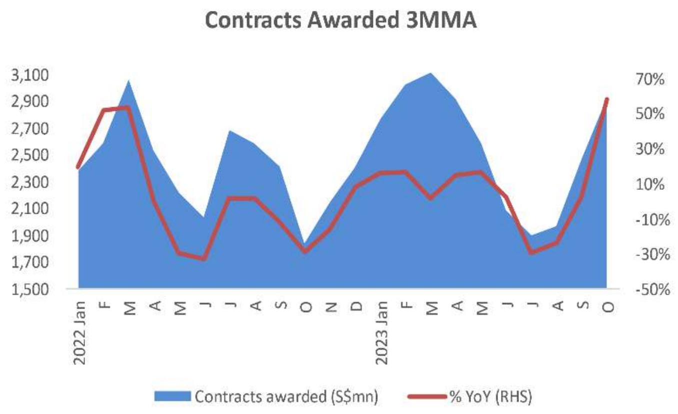
Peggy Mak (+65 6212 1852)
Research Manager
peggymak@phillip.com.sg

Figure 22: Rising progress payments reflect more jobs completed and higher construction cost



Source: PSR, BCA

Figure 23: Surge in jobs awarded will translate into output in 12-18 months



Source: PSR, BCA

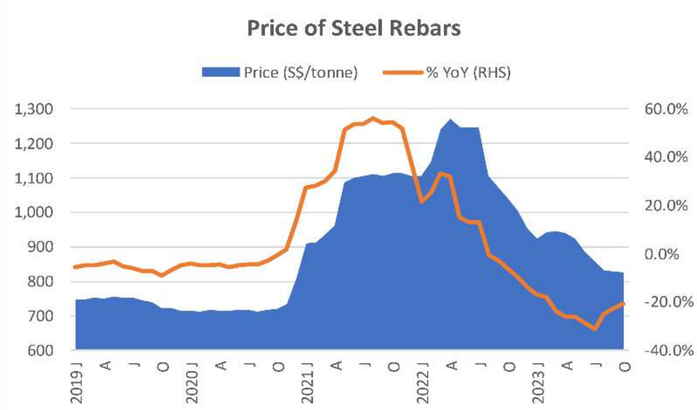
Figure 24: Step-up in new private homes

Source: PSR, URA

Figure 25: Completion of housing units to remain high in the next two years

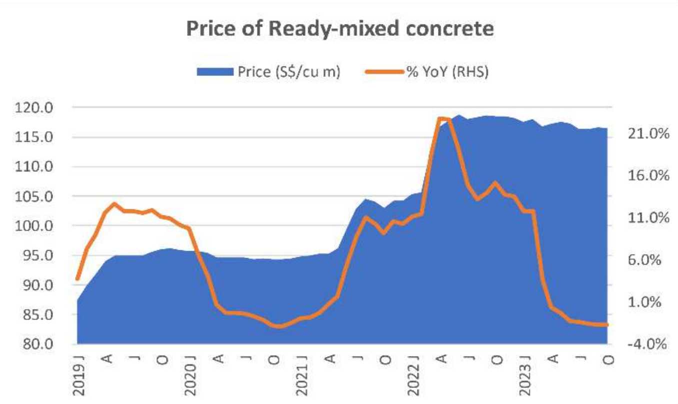
Source: PSR, HDB, URA

Figure 26: Steel rebar prices have corrected and nearing trough



Source: PSR, Singstat

Figure 27: Ready-mixed concrete prices held stable



Source: PSR, Singstat

Consumer NEUTRAL

- After the 10% bounce in 2022, the consumer sector returned most of its gains with a 6.1% decline in 2023. A large drag has been Thai Beverage (-23%) and Dairy Farm (-18%). Rising inflation, weak currency and a sluggish economy have been key headwinds to consumer spending in ASEAN.
- Retail sales in Singapore expanded 2.8% YTD23, still above the pre-pandemic 3-year average of 0.7%. However, the pace of consumer spending is slowing down.
- We are **NEUTRAL** on the consumer sector as we worry macro conditions will only recover in the later part of 2024. Consumers are still reeling from high inflation and economic momentum is gradually picking up led by fiscal spending, especially in Thailand.

2023 Review

Re-opening boom fizzles out. The removal of COVID-19 restrictions did result in a significant rebound in retail sales in ASEAN (Figure 32). ASEAN consumer sentiment was hurt by slowing economic growth (Figure 33) and rising inflation pulling down consumer discretionary spending. Thai Beverage beer volumes in the September 2023 quarter were down 11%, dragged by around a 14% fall in volume in Vietnam subsidiary, Sabeco. Competition is creeping into the beer market in Thailand with the arrival of Carabao, looking to capture a 20% market share based on the production capacity introduced.

Slower price hikes affect margins. Most consumer companies are not passing on higher costs due to weak consumer sentiment. Competitive pressure is another challenge to margins. To maintain scale and volume in the current softer environment, competitors have been aggressive in promotions to secure extra spending from customers. This is especially acute in Vietnam where macro conditions are weak. In the grocery and health and beauty sector, the launch of more house brand products has been the strategy to raise margins. This is being pursued by both Sheng Siong and DFI Retail Group.

Most consumer stocks were down in 2023. The best performers were Genting Singapore (+5%) and Emperador (+4%). Most consumer names were down – Thai Beverage, Sheng Siong (-3%), Kimly (-9%), Jumbo (-7%) and Japfa (-36%). The strength of tourism in Singapore (Figure 28) has driven up gaming and leisure spend in Singapore. However, overall retail spending has deteriorated in Singapore (Figure 29) and regionally (Figure 32). The rising cost of living is dampening household confidence and discretionary spending.

Outlook

We are cautious on the consumer sector. Retail spending has been softening after the re-opening boom. Employment conditions in Singapore are also slowing down. Job vacancies are trending back to pre-pandemic levels (Figure 30). A positive has been the rise in population. In 2023, the population grew 5% to 5.91mn, the fastest growth in 15 years. The 281,000 rise is also the largest on record. Although 73% or 204,600 of the increase were non-residents, population growth will support Singapore's GDP and consumption spending. For the rest of ASEAN, we expect mixed performance. In Thailand, fiscal stimulus targeted at domestic consumption through direct handouts will provide a boost to consumer spending. Vietnam remains weak due to the sluggish export environment.

Recommendations

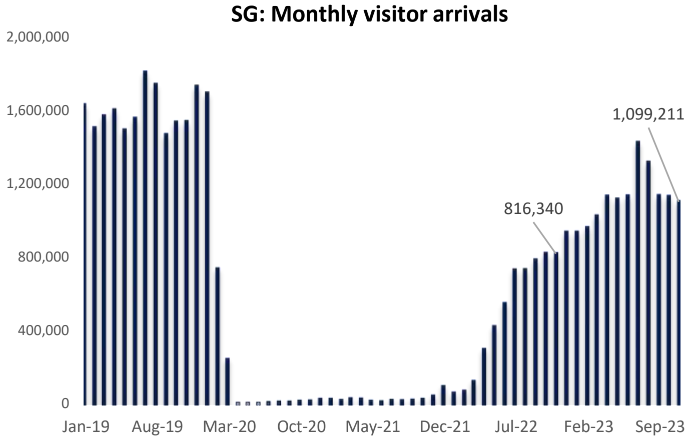
We are **NEUTRAL** on the consumer sector.

- **Sheng Siong (SSG SP, BUY, TP S$1.80)** We expect a larger roll-out of new stores, lower utility costs, an increase in interest income and stable gross margins. The inflationary environment has caused households to be more price-conscious. SSG benefits from its reputation as a value grocer.
- **Thai Beverage (THBEV SP, BUY, TP S$0.80)** Volumes in Vietnam are expected to be weak until 1Q25 when the macro environment recovers. Consumption of beer in Thailand should enjoy support from the recovery in tourism. However, the emergence of Carabao as a new beer competitor will raise the pricing and marketing intensity. The upside in our forecast will stem from fiscal spending underway in Thailand. The stimulus is targeted at consumer spending and farmer income. A bonus is low alcohol taxes.

Paul Chew (+65 6212 1851)
Head of Research
paulchewkl@phillip.com.sg

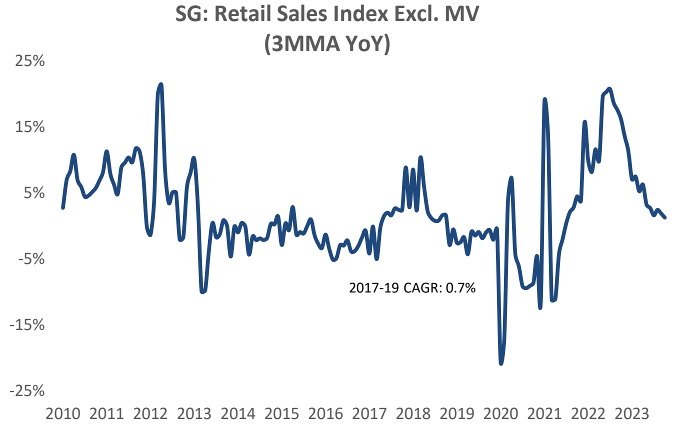
Singapore Consumer Tracker

Figure 28: Tourism recovered strongly in 2023



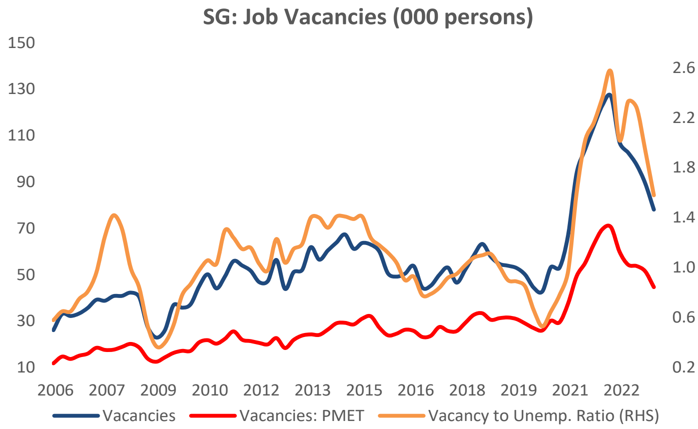
Source: PSR, CEIC, Singapore Tourism Board

Figure 29: Retail sales trending back to pre-pandemic levels



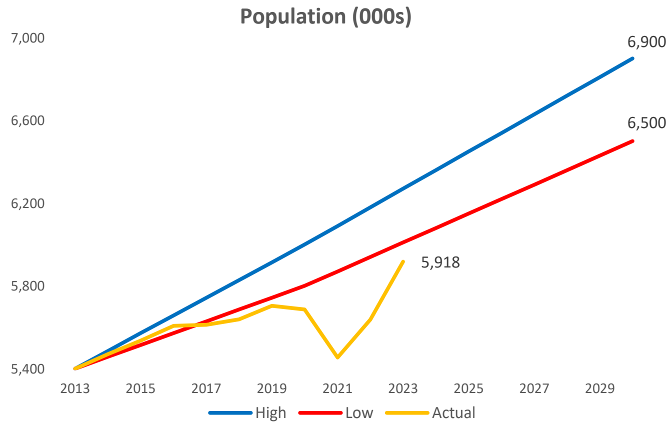
Source: PSR, CEIC, Department of Statistics

Figure 30: Job vacancies normalising



Source: PSR, CEIC, Ministry of Manpower

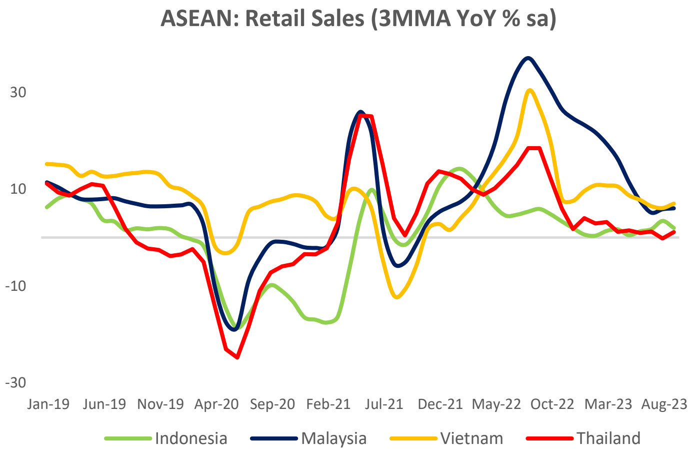
Figure 31: Population growth of 5%, highest in 15 years



Source: PSR, CEIC, Singapore Department of Statistics

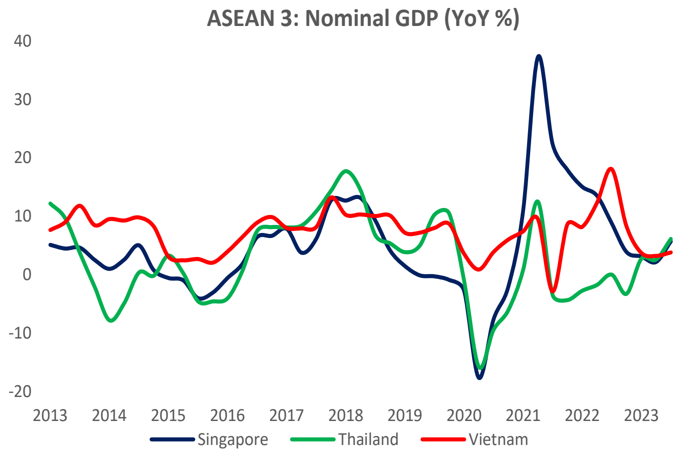
Thailand/Vietnam Consumer Tracker

Figure 32: Post re-opening whimper



Source: PSR, CEIC

Figure 33: GDP has been sliding especially in Vietnam



Source: PSR, CEIC

Finance OVERWEIGHT

- Interest rates continued to increase and surpassed the record levels reached in 2022. As a result, the banks' NIMs and NII rose in tandem. The NIM increase was partially offset by a decline in loans' growth and flat fee income growth.
- Excess capital ratios could lead to special dividends when the macroeconomic outlook stabilizes.
- We remain **OVERWEIGHT** on the Singapore banking sector.

2023 Review

Interest rates hit record high resulting in continued growth in NIMs and NII. The Fed rate reached a record high of 5.5% in 2023 but hikes were substantially slower as compared to 2022 (hikes totalled 124bps in FY23 vs 401bps in FY22). It resulted in a similar move in the 3M-SORA/3M-HIBOR to 3.75%/5.44%. Bank NIMs increased by 47bps to 2.19% in 9M23, while Net Interest Income (NII) in 9M23 surged by 31% YoY.

Fee income growth flat. Fee income growth was generally flat, with the banks' 9M23 fee income rising by 2% YoY (Figure 36). This was due to the weaker market sentiment as customer activities were subdued amid a risk-off investment sentiment globally. The increase was mainly seen in the continued recovery in credit card fees as borders started to reopen and spending increased, while other segments such as wealth management, investment banking and loan-related fees were flat or declined slightly.

Credit costs higher due to increase in GPs and SPs. The banks' 9M23 general provisions (GP) rose to a total of S$280mn (9M22: S$186mn) as GPs continued to normalize from FY22. 9M22 specific provisions (SP) also rose 59% YoY due to several events during the year, such as the money laundering case in Aug 2023 and the rebalancing of collateral value in the US and Hong Kong/China. Credit costs increased across the board, with the banks' 9M23 credit costs at 19bps (9M22: 12bps) (Figure 37).

SGX's securities volumes dip while derivatives volumes growth flat. SGX's securities volume was trending downwards, with the 5MFY24 securities daily average volume (SDAV) down 14% YoY at 958mn contracts (Figure 38) as the market sentiment remained subdued due to macroeconomic factors. Volumes continued to moderate from FY23 after a record year in FY22. However, SGX's derivatives volume was relatively flat, with the 5MFY23 derivatives daily average volume (DDAV) down 1% YoY (Figure 39). As market volatility continues to rise, derivatives volume could recover for the rest of FY24e.

2024 Outlook

Interest rates to maintain current high. The 3M-SORA and 3M-HIBOR have continued to increase and surpassed the record highs reached in FY22, and we expect the interest rates to maintain at these elevated levels until the second half of 2024 (Figure 40). Market expectations are for the Fed Fund Rate to maintain for 1H24 and for rate cuts to only come in during 2H24.

Stable NIM Guidance. NIM guidance for all three banks has been maintained at 2.10-2.25% for FY23e, with expectations for NIMs to maintain at these levels for FY24e. This is mainly due to the absence of interest rate hikes in 1H24 and an expectation for rate cuts to start in 2H24. However, the banks have guided for higher loans' growth as interest rates have peaked and might drop in 2H24, with a guidance for mid-single digit loans growth for FY24e. The banks have also managed to stablise their CASA.

Recovery in fee income. The banks are expecting fee income to recover from the low base in FY23 and for the growth to be led by credit card fees and wealth and fund management fees as the market sentiment recovers. As such, they have guided for double-digit fee income growth for FY24e. There is upside from cards from higher spending due to the ongoing recovery in travel and continued momentum is expected in wealth management, with the banks' 9M23 Assets Under Management (AUM) growing 13% YoY.

Recommendation

Remain OVERWEIGHT. With interest rates surpassing previous highs in 2022 and earnings continuing to show momentum, we expect this to continue into 2024. As interest rates are expected to maintain at the current elevated levels until 2H24, we believe there is further room for NIM and NII growth in 2024 which would boost earnings. The banks' dividend yields are attractive with upside surprise due to excess capital ratios and a push towards higher ROEs. Furthermore, stable economic conditions and rising interest rates remain tailwinds for the banking sector.

We like **OCBC (OCBC SP, BUY, TP S$14.96)** due to attractive valuations and dividend yield of 6.6%, buffered by a well-capitalised 14.8% CET 1, and fee income recovery from China's re-opening. In FY24, we anticipate NII growth driven by stable NIMs and rising loans amid stabilised rates, with fee income recovery boosting earnings.

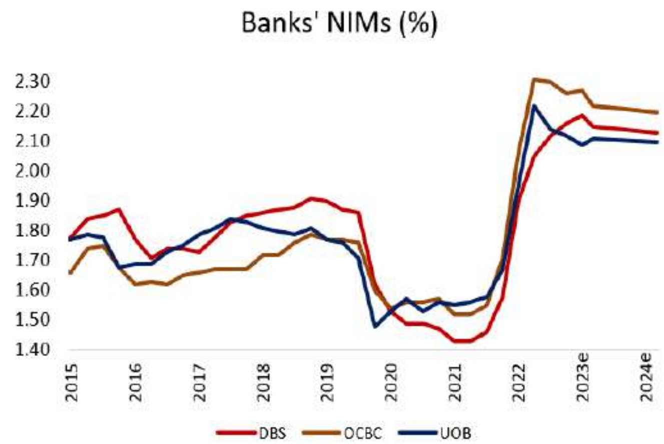
Glenn Thum (+65 6212 1851)
Research Analyst
glennthumjc@phillip.com.sg

Figure 34: Singapore banks' peer comparison

Stock	PSR Recommendation	Market Cap (USDmn)	Forward P/E			Forward P/BV			Dividend Yield (%)		ROE (%)			Price (Local Currency)	Target Price (S$)	Upside
			Yr0	Yr1	Yr2	Yr0	Yr1	Yr2	Yr1	Yr2	Yr0	Yr1	Yr2			
Singapore																
DBS	Accumulate	65,331	10.7	8.5	8.7	1.5	1.4	1.3	6.2	6.8	14.3	17.5	16.2	33.4	41.60	25%
OCBC	Buy	44,296	9.6	8.3	8.2	1.0	1.1	1.0	6.4	6.6	10.9	13.2	12.6	13.0	14.22	9%
UOB	Accumulate	36,073	11.4	8.3	8.1	1.3	1.1	1.0	6.1	6.3	11.1	13.3	12.9	28.5	35.70	25%
	Market Cap Weighted Average:		**10.5**	**8.4**	**8.4**	**1.3**	**1.2**	**1.1**	**6.2**	**6.6**	**12.5**	**15.1**	**14.3**			
Indonesia																
BCA	Non-rated	75,285	25.9	23.7	21.8	4.8	4.7	4.3	2.4	2.7	19.2	21.0	20.7	9400	na	na
MANDIRI	Non-rated	36,686	11.2	11.0	10.0	2.0	2.2	2.0	4.6	5.6	19.0	21.3	21.0	6050	na	na
BNI	Non-rated	13,024	9.4	9.4	8.3	1.3	1.4	1.1	4.9	5.7	14.1	15.0	15.4	5375	na	na
BANK BRI	Non-rated	56,372	14.6	14.7	13.0	2.5	2.7	2.5	5.0	5.7	17.4	19.0	20.1	5725	na	na
BANK BTN	Non-rated	1,140	4.7	5.3	4.7	0.6	0.6	0.5	3.0	3.3	12.9	11.7	12.0	1250	na	na
	Market Cap Weighted Average:		**18.2**	**17.2**	**15.6**	**3.2**	**3.3**	**3.0**	**3.8**	**4.4**	**18.2**	**20.0**	**20.2**			
Malaysia																
AFFIN BANK	Non-rated	1,063	82.9	9.4	8.3	0.4	0.4	0.4	4.6	5.2	11.5	4.4	4.9	2.1	na	na
ALLIANCE BANK	Non-rated	1,143	7.8	7.8	7.3	0.8	0.7	0.7	6.3	6.6	10.3	9.6	9.8	3.4	na	na
AMMB HOLDINGS	Non-rated	2,890	6.9	8.1	7.6	0.7	0.7	0.7	4.9	5.5	10.0	9.4	8.9	4.0	na	na
BANK ISLAM	Non-rated	1,091	11.9	9.4	8.8	0.9	0.7	0.7	6.2	6.5	7.5	7.5	7.9	2.2	na	na
HONG LEONG BANK	Non-rated	8,926	10.2	9.7	9.0	1.1	1.1	1.0	3.4	3.7	11.8	11.4	11.4	18.9	na	na
MAYBANK	Non-rated	23,358	12.6	11.5	11.1	1.2	1.2	1.2	6.7	6.9	9.6	10.5	10.6	8.9	na	na
PUBLIC BANK	Non-rated	18,142	13.7	12.2	11.7	1.7	1.5	1.4	4.3	4.5	12.4	13.0	12.7	4.3	na	na
RHB	Non-rated	5,089	8.9	8.1	7.9	0.9	0.8	0.7	7.2	7.4	9.5	9.6	9.4	5.5	na	na
	Market Cap Weighted Average:		**13.1**	**10.8**	**10.4**	**1.3**	**1.2**	**1.1**	**5.4**	**5.7**	**10.8**	**11.1**	**11.0**			
Thailand																
BANGKOK BANK	Non-rated	8,689	9.6	7.1	6.5	0.6	0.6	0.5	4.1	4.6	5.9	8.0	8.2	156.5	na	na
BANK OF AYUDHYA	Non-rated	6,044	7.4	6.3	6.0	0.7	0.6	0.5	4.1	4.2	9.3	9.4	9.3	28.3	na	na
KASIKORNBANK	Non-rated	9,303	9.8	7.6	7.0	0.7	0.6	0.6	3.6	4.0	7.3	8.1	8.4	135.0	na	na
KIATNAKIN BANK	Non-rated	1,238	8.2	6.9	6.5	1.1	0.7	0.7	5.7	6.4	14.0	10.5	10.3	50.3	na	na
KRUNGHTHAI	Non-rated	7,480	7.3	6.5	6.1	0.7	0.6	0.6	4.7	5.1	9.2	10.1	10.1	18.4	na	na
KRUNGHTHAI CARD	Non-rated	3,262	21.5	15.2	14.1	4.9	3.1	2.7	2.8	2.9	24.3	21.9	20.8	43.5	na	na
SCB X PCL	Non-rated	10,381	9.6	8.5	7.9	0.8	0.7	0.7	6.3	6.6	8.3	8.9	9.2	106.0	na	na
SRISAWAD	Non-rated	1,618	15.0	11.0	9.6	2.7	1.9	1.7	4.1	4.5	17.8	18.6	18.9	40.5	na	na
THANACHART BANK	Non-rated	1,510	8.5	7.9	7.2	0.7	0.8	0.7	7.0	7.5	7.9	9.6	10.0	49.5	na	na
TISCO	Non-rated	2,323	11.0	10.7	10.6	1.9	1.8	1.8	7.9	8.1	17.2	17.2	17.2	99.8	na	na
	Market Cap Weighted Average:		**10.0**	**8.1**	**7.5**	**1.1**	**0.9**	**0.8**	**4.8**	**5.1**	**9.8**	**10.4**	**10.5**			

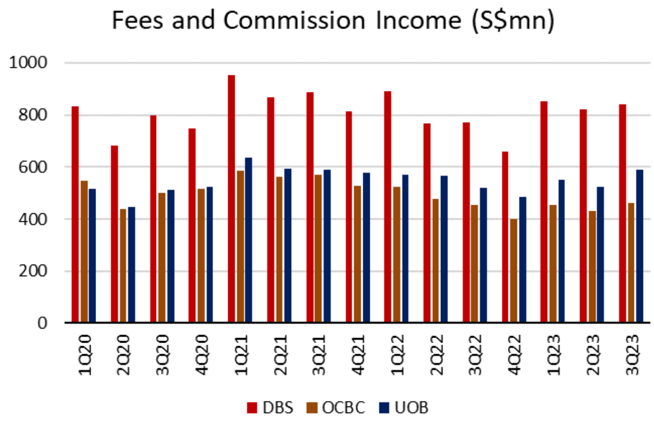
Source: Bloomberg, PSR Extracted as of 30-Dec-23

Figure 35: NIM continued growth in 2023



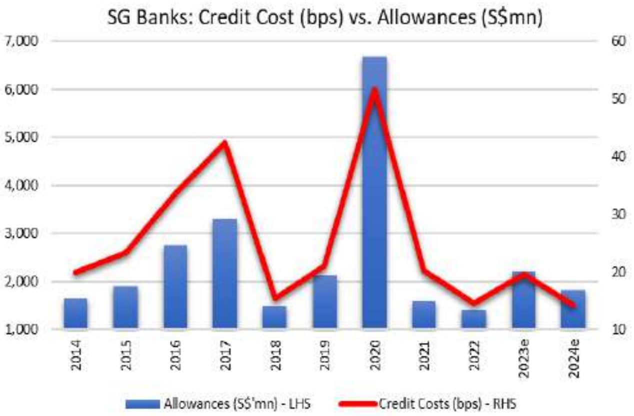
Source: PSR, Companies

Figure 36: Fee income fell from record 2021



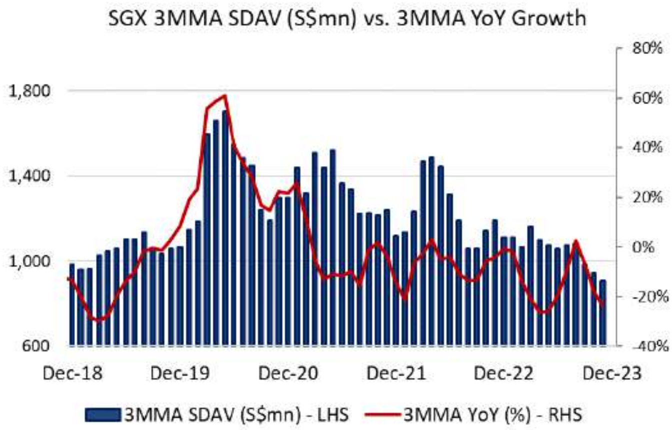
Source: PSR, Companies

Figure 37: Credit costs higher due to uptick in allowances



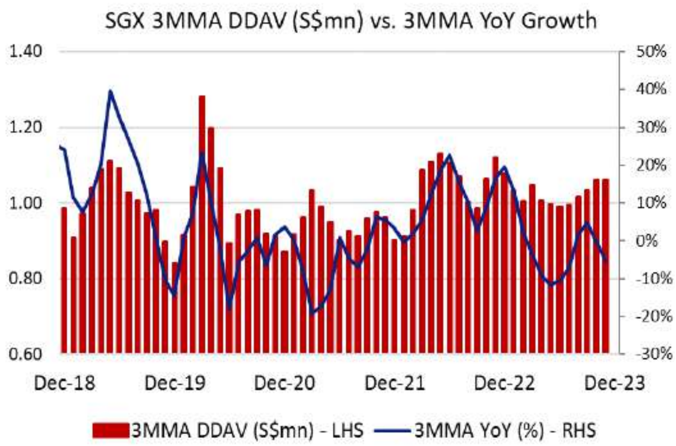
Source: PSR, Companies

Figure 38: SGX SDAV dipped YoY 5MFY24



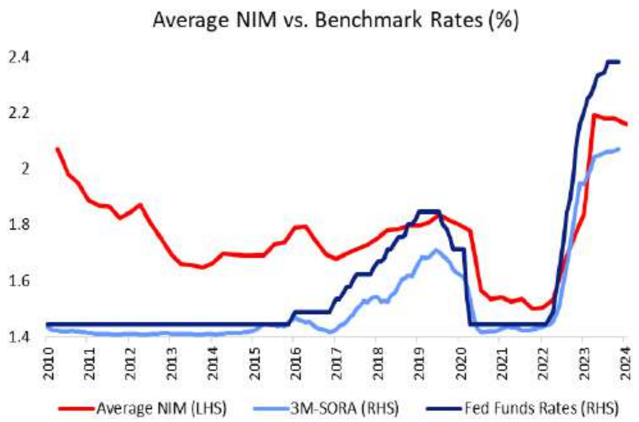
Source: PSR, Companies

Figure 39: SGX DDAV growth flat



Source: PSR, Companies

Figure 40: Interest rates at record highs



Source: PSR, Companies

Healthcare NEUTRAL

- The unwinding of COVID-19-related services has contributed to a significant decline in earnings. Bellwether hospital operator Raffles Medical experienced a 67% YoY drop in 3Q23 PATMI to S$12.4mn. Meanwhile, Q & M Dental suffered a 46% fall in 1H23 PATMI to S$5.3mn.
- We believe the new national initiative called Healthier SG will have implications on the profitability of general practitioners (GP) and drug companies. To bend the cost curve and focus on preventive care, GPs will bid for patients allocated by the government. The competitive bidding will lower margins and favour clinics with a larger scale.
- We have a **NEUTRAL** weighting on the sector. We favour healthcare companies building a long-term branded franchise in skin health (Hyphens Pharma), sublingual drugs (iX Biopharma) and dental chain (Q & M Dental).

2023 Review

TCFs drove additional growth for hospitals. The slowdown in pandemic-related spending was expected, although the timing was delayed with the introduction of transitional care facilities (TCF). Public hospitals are facing a surge in admissions (Figure 41). To cope with the rise, stable patients from public hospitals can now be transferred to TCFs as they await arrangements for care at home or in nursing homes. This can reduce the utilisation of beds at the hospitals. The crunch in public hospital beds is due to older patients with complex conditions requiring longer stays and home settings less readily available.

Multiple pressure points. We see multiple pressure points for hospitals; 1) Whilst TCFs are new growth drivers for hospitals, there has been aggressive price competition in recent bids; 2) Medical tourism is weaker than expected due to rising costs and currency compared with neighbouring countries; and 3) start-up cost from expansion into greenfield projects.

Healthcare performed poorly. The healthcare sector was down 10% in 2023 (2022: -17%), largely dragged down by behemoth IHH (-9%). The worst performers were Clearbridge (-58%), Raffles Medical (-23%) and HC Surgical (-23%). Q & M Dental (-19%) faced another year of decline due to a higher cost base from the recent expansion of clinics. Rubber glove, gowns, and face mask makers such as Medtecs (-7%), Riverstone (+15%) and UG Healthcare (+15%) outperformed due to the resurgence of COVID-19 cases.

Outlook

We remain cautious in the near term. There is a structural demand for healthcare in Singapore due to the ageing population (Figure 42) and rising life expectancy (Figure 43). However, initiatives to lower the cost curve and competition will hurt margins. The re-opening of borders has also resulted in some outflow of domestic patients to cheaper neighbouring countries. Admission volumes are soft for private hospitals (Figure 44) but are compensated by rising revenue per in-patient from case complexity (Figure 45). Healthier SG will compress margins for GP due to higher volumes but lower prices for servicing these patients. We think new technologies will be adopted to improve efficiency (e.g. telemedicine) and scale will be a cost advantage. There is likely to be consolidation of the smaller GP clinics (Figure 46).

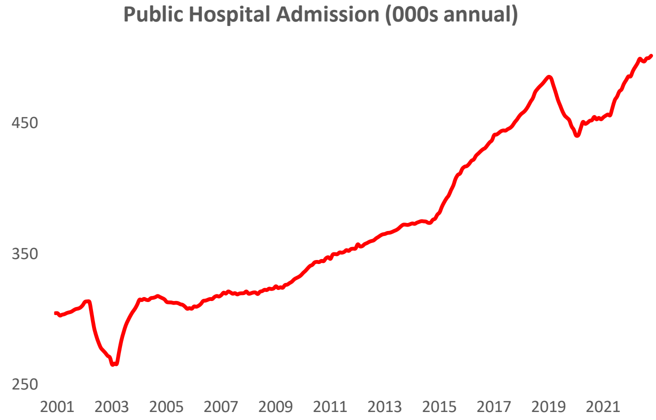
Recommendation

We are **NEUTRAL** on the healthcare sector.

- **Raffles Medical (RFMD SP, NEUTRAL, TP S$1.02)** margins are expected to remain weak in the coming quarters. The repricing of Changi TCF effective 20 September 2023 will further soften margins in the coming quarters. There is also the burden near-term from start-up losses in China.
- **Q & M Dental (QNM SP, ACCUMULATE, TP S$0.34)** After setting up a record 34 clinics or 30% more, Q&M needs to raise profitability by recruiting new dentists to fill its existing chain of clinics, installing new equipment, and upgrading the poorer performing dentists.
- **Hyphens Pharma (HYP SP, BUY, TP S$0.35)** The discontinuation in Biosensors distribution, absence of a major hospital tender, and supply disruptions of several speciality pharma products have been a drag on earnings. Operating expenses will also be raised from investing more in senior hires and building up the DocMed platform.

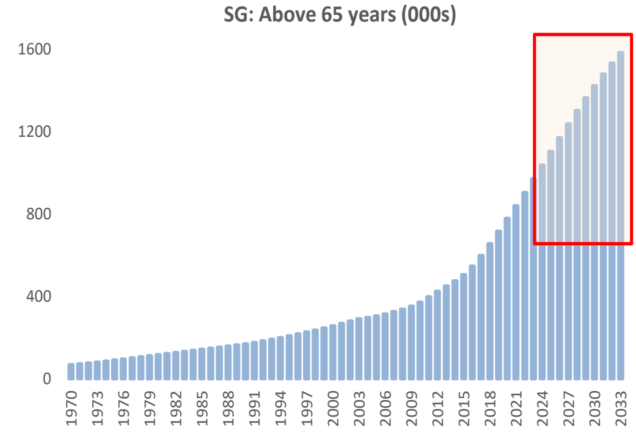
Paul Chew (+65 6212 1851)
Head of Research
paulchewkl@phillip.com.sg

Figure 9 Jump in admission causing a bed crunch



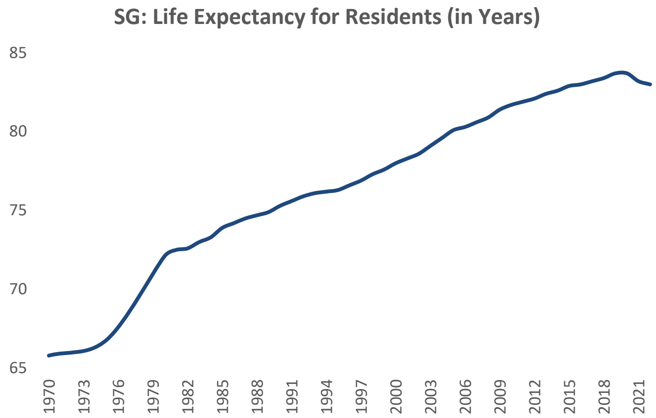
Source: CEIC, PSR

Figure 42: Number of 65 years and above rising fast



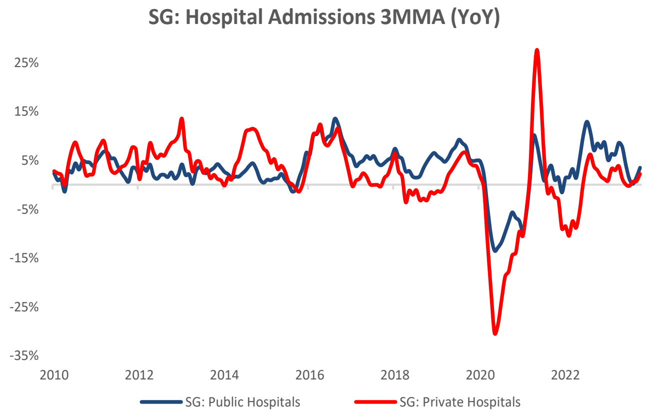
Source: CEIC, PSR

Figure 10: 80 is the new 60



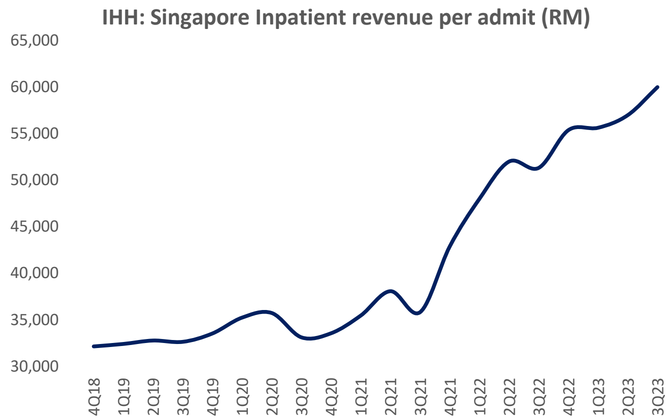
Source: CEIC, PSR

Figure 44: Private hospital admissions slower than public



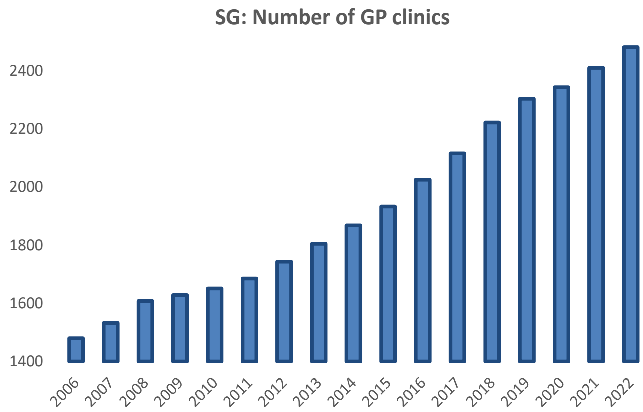
Source: CEIC, PSR

Figure 45: Volumes are weak, but pricing is strong



Source: IHH, PSR

Figure 46: Current ~2500 clinics could be consolidated



Source: CEIC, PSR

Property NEUTRAL

- Singapore's private residential property prices have held up in 2023, rising 3.9% for 9M23 since the beginning of the year despite cooling measures.
- The ABSD hike to 60% in April 2023 had the biggest impact on the high-end market, with prices in the CCR falling 2% over the first nine months of 2023.
- Property demand may improve in 2024 with 75bps of interest rate cuts expected in 2H24.
- **NEUTRAL** on the property sector. Top pick in the sector is **CapitaLand Investment (CLI SP, BUY, TP: S$3.68).**

2023 Review

Singapore private residential property prices rose slightly in 3Q23 by 0.8% QoQ, taking the 9M23 price increase to 3.9% since the beginning of the year. Prices in the Core Central Region (CCR) were the laggard among the regions, falling 2% over the first nine months of 2023. Rising costs paired together with elevated interest rates moderated residential property demand. The Additional Buyers' Stamp Duty (ABSD) hike to 60% in April 2023 further curtailed demand from foreign home buyers across the board, with the biggest impact on the high-end segment.

Considering the ABSD hike, City Developments Limited postponed the launch of Newport Residences. Initially scheduled for 2Q23, this high-end project, which targets foreigners, is now slated for launch in 1H24.

Outlook

After the large number of completions in 2023, the incoming stock is expected to normalise to 12,032/7,283/5,772 in FY24-26e, including ECs. This should support private home prices going forward and we expect prices to grow only slightly in 2024.

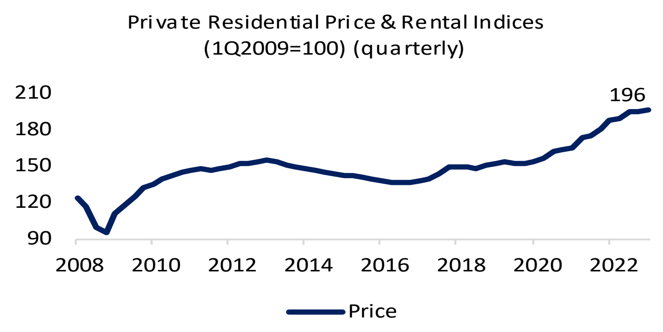
With interest rate cuts expected in 2H24, property demand may improve in the latter half of 2024 as mortgage rates peak.

Recommendation

We maintain a **NEUTRAL** stance on the property sector following the implementation of cooling measures, citing a lack of catalysts for significant improvement. Our preferred pick is CLI, for its robust recurring fee income stream and asset-light model. We expect the lodging business to continue to improve with higher RevPAU and more lodging units turning operational.

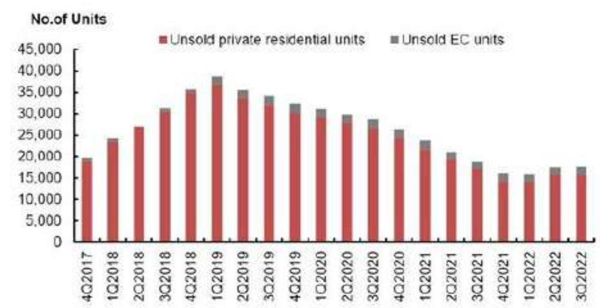
Darren Chan (+65 6212 1878)
Senior Research Analyst
darrenchanrx@phillip.com.sg

Figure 47: Singapore Property price index was up 3.9% for 9M23 since the beginning of the year



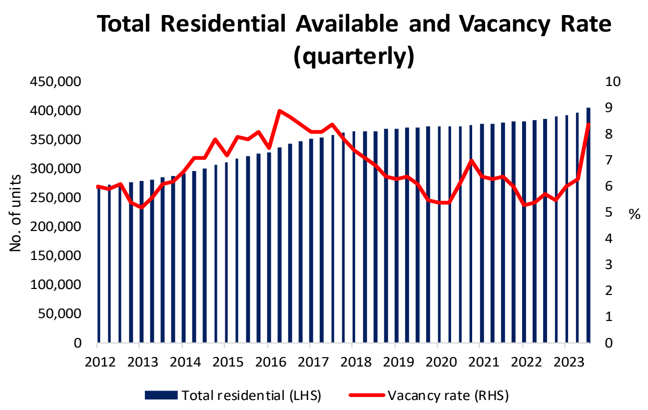
Source: URA, CEIC, PSR

Figure 48: Inventory levels remain low with only 17,737 private residential units (including ECs) unsold



Source: URA

Figure 49: Vacancy of private residential units rises to 8.4%



Source: PSR, CEIC, URA

Real Estate Investment Trusts (REITs) OVERWEIGHT

- SREITs' total returns were up 6.5% in 2023 after gaining 8.9% in December, outperforming the STTF (+4%) for the year. Industrials (+15.2%) was the best-performing sector - lifted by the strong demand for logistics assets, while overseas commercial (-21.6%) was the worst performing sector. Digital Core REIT Management (DCREIT, not rated) emerged as the top performer in 2023 (+25.6%) after being the worst in 2022 (-53.1%), while Manulife US REIT (MUST, not rated) was the worst performer in 2023 (-71.3%).
- The sector is now trading at a forward dividend yield spread of 312bps (-1.3x s.d.) over the benchmark 10-year SGS and a P/NAV of 0.93x, 1.1x s.d. below the mean.
- We are **OVERWEIGHT** on SREITs. The potential Fed pivot will likely underpin a sector recovery in FY24/25. Our sub-sector preference is Hospitality and Retail. Top picks are CapitaLand Ascott Trust (CLAS SP, BUY, TP S$1.04) and Frasers Centrepoint Trust (FCT SP, ACCUMULATE, TP S$2.29).

2023 Review

Interest rates continued to rise in 2023, with the Fed Funds Rate increasing 100bps to 5.5% YoY. 3MSORA also gained 61bps YoY to 3.71%. Operations-wise, SREITs' revenue was mostly resilient with positive rental reversions and high occupancies. However, although most REITs have 70-85% of their debt hedged to fixed rates, distributable income was still eroded by higher finance costs, resulting in lower DPU YoY except for the hospitality sub-sector. High-interest rates also put pressure on cap rates, which resulted in lower property valuations globally barring Singapore.

Retail. In 3Q23, retail sales (excluding motor vehicles) increased by 1.8% YoY, reaching 112% of pre-COVID levels, consistent with the growth in tenants' sales reported by SREITs. Downtown malls spearheaded the recovery this year, reporting high-single to low double-digit rental reversions, while suburban malls reported single-digit reversions. Fueled mainly by F&B operators and services, islandwide retail vacancy rates dropped 0.3%pt QoQ to 7.2%, with most malls owned by SREITs having above 97% occupancy. According to CBRE, retail rents for downtown malls surged by 3.8% YoY in 3Q23, while suburban malls increased by 3.1%.

Office. Year-to-date performance has remained relatively stagnant due to various factors weighing on the sector, including the structural shift toward remote work, subdued macroeconomic conditions, and a preference for Grade-A office spaces. Despite a net absorption of -0.19mn sqft for 3Q23, the Core CBD vacancy rate decreased slightly to 4.7%. The flight-to-quality trend was predominant this year, contributing to a 2.2% YoY increase in rentals to S$11.85 for Core CBD Grade A offices. Overall occupancy across the island improved to 60% due to strengthened return-to-office policies, and there are no significant signs of declining valuations for properties in Singapore.

Industrial. Occupancy of 88.9% was down by 0.8ppts YoY in 3Q22 as occupancy gains in warehousing were more than offset by losses in single-user factories and business parks. Rents grew 9.3% YoY in 3Q22, led by multi-user factory (+11.1%) and warehousing (+9.1%), with all asset classes registering rental growth. Business parks continue to be the laggard compared with other industrial asset classes, registering a 4.7ppts decrease in occupancy YoY to 80.5% as office users contemplate their space needs. Strong demand was coming from biomedical, logistics and supply chain management, and technology.

Hospitality. The hospitality sector was the only sector that could generate DPU YoY growth for the year, as the growth in RevPAR and revenue could more than offset any increase in interest expense. Despite the slower-than-anticipated return of Chinese tourists (it is only at 42% of pre-Covid levels), 11M23 Singapore international visitor arrivals (IVA) was 12.3mn, almost double the whole of 2022 of 6.3mn. RevPAR fell 9.5% YoY in Nov23, but it is still 10% above pre-COVID levels. With average daily rates already surpassing pre-Covid levels, we anticipate the gradual recovery of international visitor arrivals to underpin RevPAR growth going forward.

Office (NEUTRAL). 4-year supply averages 0.9mn sq ft p.a, slightly above historical 5-year supply, albeit front-loaded in the initial two years. Although Core CBD rents reported by CBRE have delivered six consecutive quarters of growth and surpassed 4Q19

Outlook

The outlook looks bright for S-REITs with expectations of interest rates pivoting in 2024. We expect S-REITs, especially those with foreign assets, to experience one last hurdle from year-end 2023 valuation declines before a more positive outlook emerges in 2024. Nevertheless, we expect most S-REITs to remain within the MAS lower gearing limit of 45% post 2023 year-end valuations.

We expect the dividend yield spread to widen over 2024, as the 10YSGS yields come down. P/NAV of 0.93x, 1.1x s.d. below the 10-year mean seems attractive. The expectations of interest rate cuts in 2024 should also drive inorganic growth opportunities ahead. We expect low single-digit DPU growth in FY24.

Retail (OVERWEIGHT). We anticipate tenant sales to rise further due to the increasing number of international visitor arrivals. The occupancy cost of c.15% for suburban malls and c.25% for downtown malls is lower than historical averages, leaving the potential for more positive rental reversions. Supply over 2023-26 is muted at 0.3mn sqft p.a., below the 10-year historical average of 0.9mn sq ft. Demand seems to be stabilising as people return to the office. Positive rental reversion, ranging from high-single digit to low-teens, is anticipated for downtown malls, supported by the 30-day visa-free entry to Singapore for Chinese citizens. Demand remains robust for catchment areas around suburban malls, and we foresee a healthy mid-single-digit rental reversion continuing into FY24e.

Office (NETURAL). We remain constructive on the office sector with upside momentum from the possible alleviation of the "work from home" trend. With close to 1.9mn sqft of space in the core CBD scheduled to deliver in 2024 due to the completion of IOI Central Boulevard Towers and Keppel South Central, supply is deemed to hit a 7-year high. Stress will be more visible in non-grade A offices, where cyclical pressures are likely to exacerbate vacancy, stoking further worries about the demand for office usage. Furthermore, more downsizing could occur as global layoffs among tech firms find their way into Singapore. We therefore anticipate office rents to be muted in FY24, as the market absorbs the spike in incoming supply.

Industrial (NEUTRAL). Industrial SREITs were the outperformers for 2023 (+15.2%), and it is hard to see them continuing their winning streak. Leasing demand is likely to be muted as most companies remain cautious with their business and expansion plans. New supply of 1.9mn sqm is expected to come on stream in 2024, and this is expected to outstrip demand. As a comparison, the average supply and demand of industrial space over the past three years were only 1mn sqm and 0.7mn sqm, respectively. However, logistics demand remains strong with demand coming from many third-party logistics businesses and cold storage operators.

Hospitality (OVERWEIGHT). RevPAR is likely to continue its upward trajectory – but at a slower pace compared to 2023 from the higher base. International visitor arrivals to Singapore are expected to hit pre-pandemic levels by 2025, supported by the 30-day visa-free entry for Chinese citizens. Also, the increase in MICE and entertainment events in Singapore will further boost this sector. We believe the hospitality sub-sector still has the most potential for DPU growth as its increase in revenue can more than offset any rise in interest expenses and operating costs going forward.

Recommendation

We are **OVERWEIGHT** on SREITs, with a sub-sector preference in hospitality and retail. We think RevPAR and international travel demand will continue to be strong, and the potential for positive rental reversions for retail malls remains high. Our key recommendations are:

- **CapitaLand Ascott Trust (CLAS SP, BUY, TP S$1.04)** for its geographically diversified portfolio, which provides both stability as well as upside potential from strong RevPAU recovery.
- **Frasers Centrepoint Trust (FCT SP, ACCUMULATE, TP S$2.29)** for its defensive suburban mall portfolio, high occupancy, and inorganic growth opportunities from its sponsor.

Our initiations in 2023 are:

- **Lendlease Global Commercial REIT (LREIT SP, BUY, TP S$0.86)** for its well-balanced portfolio. it continues to see strong rental reversion momentum in the retail segment due to international travel, alongside stable returns from the suburban mall.

- **Sasseur REIT (SASSR SP, BUY, TP S$0.90)** for a 29% YoY sales increase in FY23e due to the tailwind of Chinese consumption shifting towards value offerings. There's also potential, amid the low-interest-rate environment, for a DPU-accretive acquisition of the Xi'an asset.

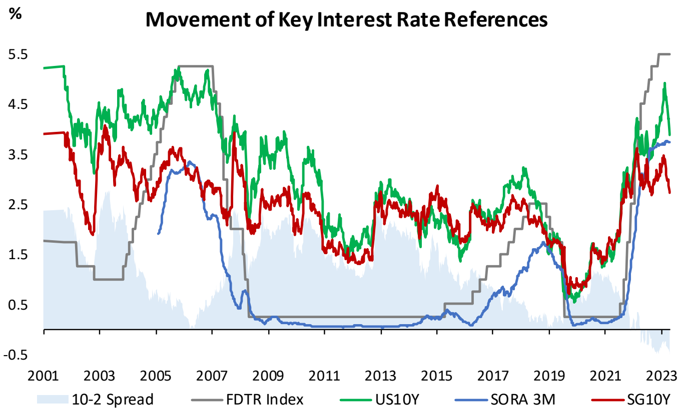
- **Suntec REIT (SUN SP, BUY, TP S$1.47)** for its resilient valuations of Singapore assets and double-digit rental reversion in the retail segment. The steep 44% discount to P/NAV appears attractive, while its low fixed debt portion at around 58% positions it favourably to capitalize on the expected 2024 interest rate cut.

- **Elite Commercial REIT (ELITE SP, BUY, TP £0.36)** for a stable income stream provided by the AA-rated UK government tenant which accounts for 93.2% of total revenue. Along with a substantial 35% discount of P/NAV, the investment also boasts a high dividend yield of 17.75%.

Darren Chan (+65 6212 1849)
Senior Research Analyst
darrenchanrx@phillip.com.sg

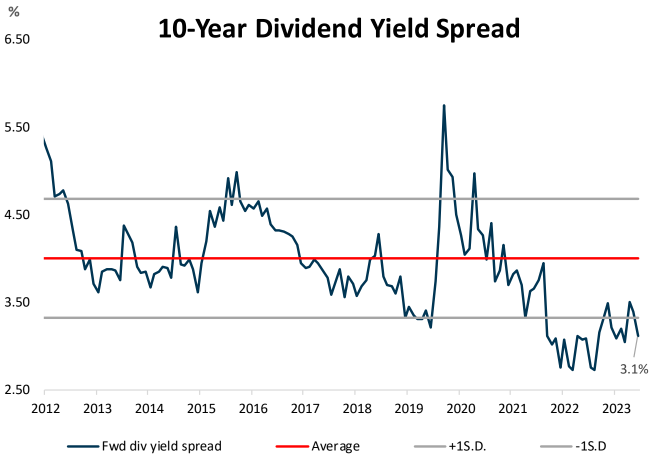
Liu Miaomiao (+65 94673476)
Research Analyst
liumm@phillip.com.sg

Figure 50: Interest rates continued to rise in 2023



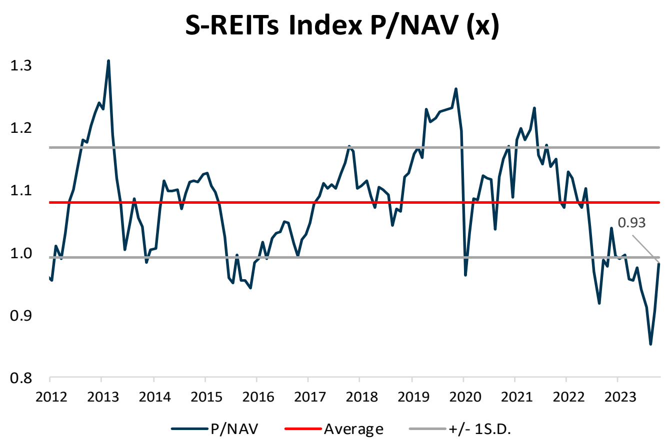
Source: Bloomberg, PSR

Figure 51: S-REIT Index yield spread at 3.1% and -1.3x s.d.



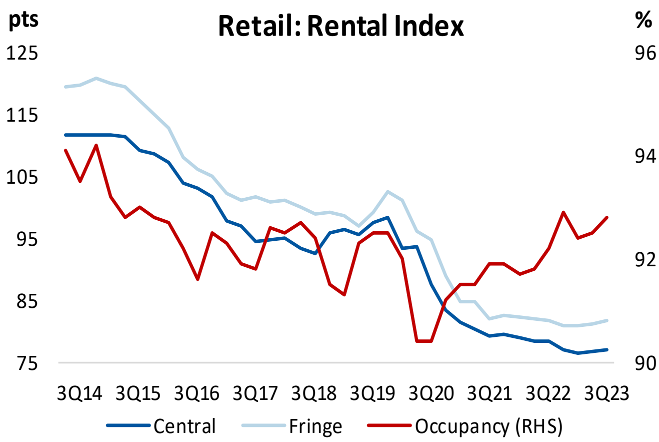
Source: Bloomberg, Phillip Securities Research

Figure 52: S-REIT Index P/NAV at 0.93x and -1.1x s.d.



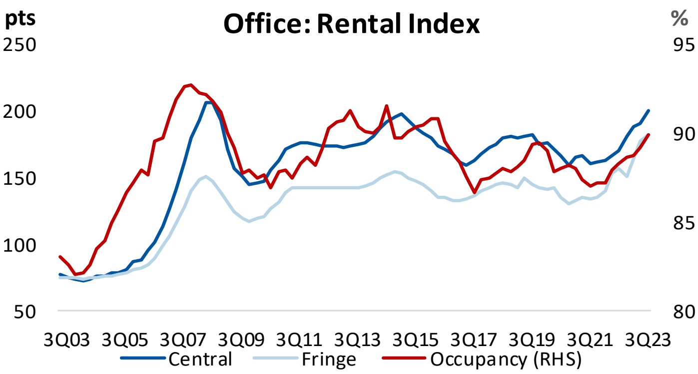
Source: Bloomberg, Phillip Securities, Research

Figure 53: Retail - rents look to have bottomed



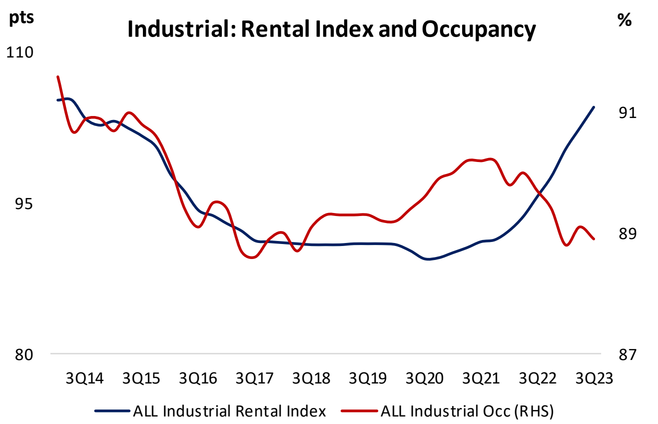
Source: URA (rebased 4Q1998), CEIC, PSR

Figure 54: Office – rents and occupancy recovered in 2023



Source: URA (rental index rebased 4Q1998), CEIC, PSR

Figure 5511: Industrial – occupancy seems to be coming off



Source: URA (rebased 4Q2012), CEIC, PSR

Technology (Hardware) NEUTRAL

- It was another weak year for most electronic stocks. The sector is down 9%, largely from the 20% decline in Venture's share price. Earnings for semiconductors have been weak, down around 35% YoY in 3Q23. The sector outperformers were Frencken (+43%), Valuetronics (+14%) and UMS (+14%).
- The increased outsourcing of supply chains into SE Asia especially Malaysia continues. But demand has been weak due to excess inventory, low (semiconductor) equipment utilisation and soft end demand.
- We are **NEUTRAL** on the technology sector in Singapore. Any meaningful recovery is only in 2H24. While inventory may be normalising, we believe the steepness of the recovery will be sluggish as global economies slow down further in 2024.

2023 Review

The weakness in electronic stocks continued into 2023. The expected recovery in 2H23 did not materialise. Inventory was too high and end demand sluggish. The downcycle is on its 14th month, similar to the 13-month average in the past two down cycles (Figure 56). Consumer demand shifted towards services after splurging during the pandemic. The semiconductor equipment industry is still carrying inventories above historical trends (Figure 57).

Most electronic companies mentioned new customer programmes as customers outsourced more into the SE Asia region. Semiconductor companies on SGX benefited from semiconductor equipment companies such as Applied Material, Lam Research and ASML building up supply chains in Malaysia and Singapore. However, low utilisation of equipment installed and high inventories have delayed the mass ramp of these programmes. The combined revenue and earnings of the three largest semiconductor equipment makers - AEM, Frencken and UMS – are down 28% and 45% YoY, respectively, YTD9/23.

AI has been a major boost to sentiment over technology stocks. The largest beneficiary are AI semiconductors, or GPUs, which we estimate is a US$40bn-50bn market. This is significant for a US$500bn semiconductor market. But most of the value is captured by Nvidia itself. Units sold for cloud GPUs are around 2mn units only. This will not raise the semiconductor equipment utilisation rate or boost capital expenditure, thereby limiting the benefit for the listed companies in Singapore.

As for contract manufacturers, the Ventures shares' poor performance was due to weak earnings. 9M23 net profit was down 25% YoY to S$69.7mn. Similar to the semiconductor industry, end demand is poor, new products are delayed and customers face excess inventory. Meanwhile, Valuetronics outperformed due to strong earnings, rising 42% YoY in 1H23 to HK$82mn. Both companies have accumulated huge cash balances. Venture and Valuetronic's net cash is S$956mn and HK$1.143bn (S$199mn), respectively. In addition to an attractive dividend yield of 6%, both companies are implementing aggressive share buy-back plans.

Outlook

We do expect a recovery in 2024 but muted. Inventory replenishment will drive revenue but lacklustre end-demand (Figure 58) is a concern for us especially with slower economic growth in 2024. Semiconductor equipment customers, i.e. wafer fabs, capital expenditure is expected to decline a further 4% in 2024 (Figure 59). Current demand is only buoyed by Chinese equipment stocking up ahead of further regulatory restrictions. AI demand is insufficient to create a volume ramp-up. The hope is a mass adoption of AI chips in end-clients such as PCs or handphones. On contract manufacturing, there are some signs of bottoming (Figure 60) but the macro backdrop as we enter 2024 is still muted.

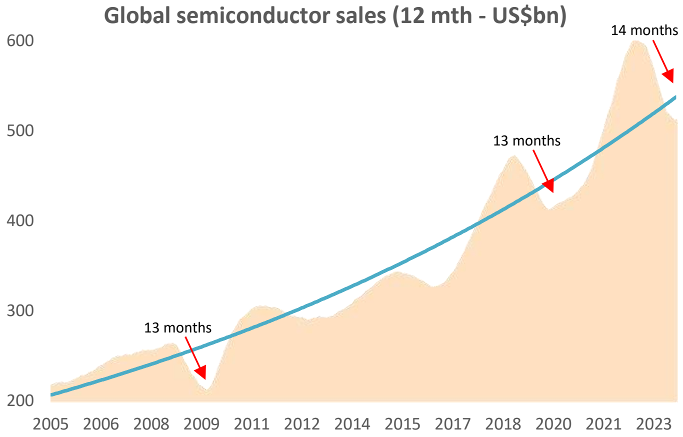
Recommendations

Venture Corp. (VMS SP, NEUTRAL, TP S$12.50) visibility from customers is unclear. Contributions from new product introductions and supply chain transitions from China to SE Asia have been delayed. We expect customer replenishment in inventory to be a tailwind. Venture recently announced plans to buy back 10mn shares (~3% of outstanding shares).

Valuetronics (VALUE SP, BUY, TP S$0.70) current cash hoard of HKD1.143bn (or S$199mn), around 80% of the market capitalisation is net cash. There is visibility of earnings growth over the next two years as Valuetronics' four new customers ramp up production. The company trades at a dividend yield of 6% and has an outstanding share buyback plan of approx. HKD182mn (or > 50mn shares at current share price).

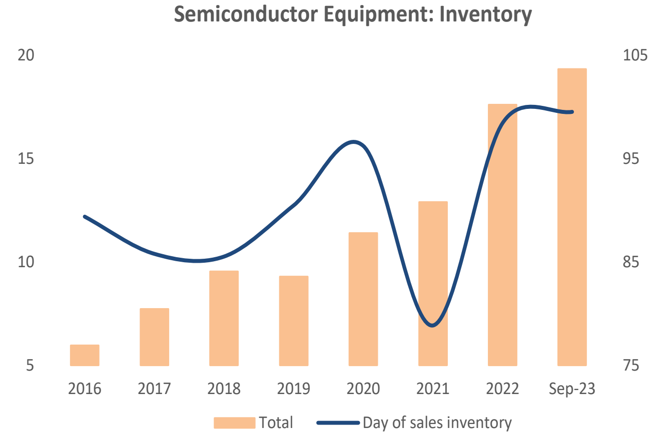
Paul Chew (+65 6212 1851)
Head of Research
paulchewkl@phillip.com.sg

Figure 56: The current downcycle is on its 14th month



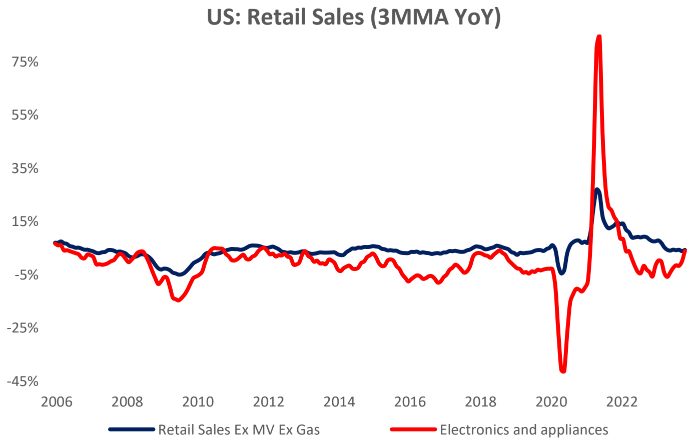
Source: PSR, CEIC, World Semiconductor Trade Statistics

Figure 57: Inventory elevated as revenue slows down



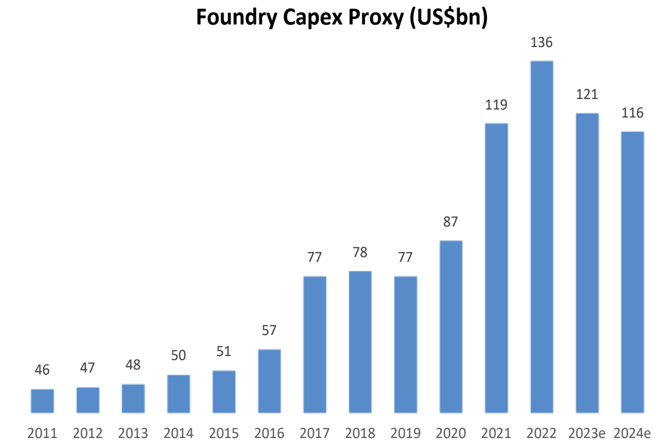
Source: PSR, ASML, Applied Materials, Lam Research, Bloomberg

Figure 12: Expect muted demand for electronics



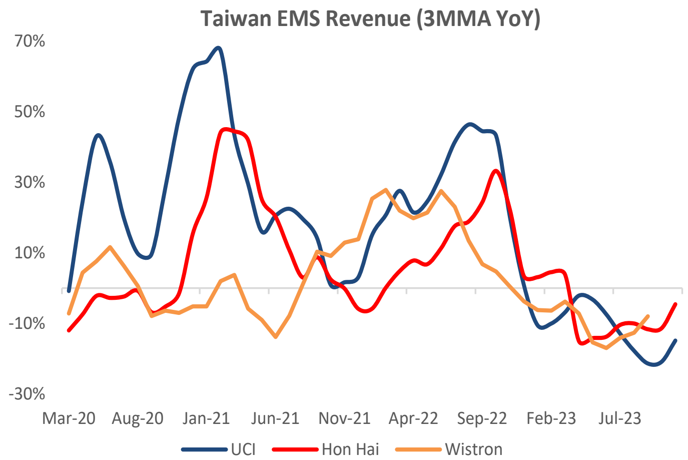
Source: PSR, CEIC

Figure 59: Demand for semiconductor equipment still weak



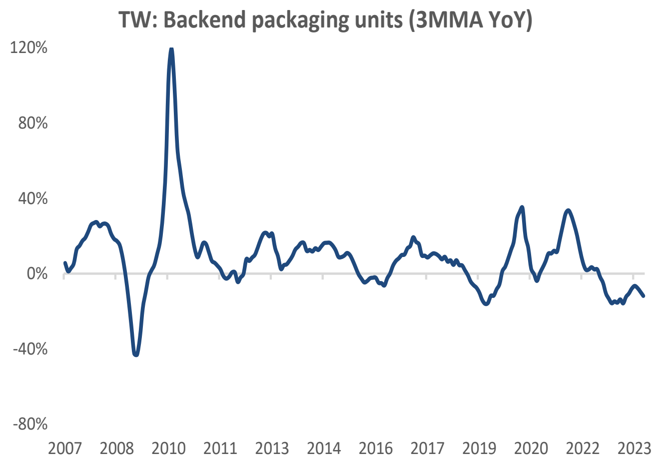
Source: PSR, Bloomberg

Figure 60: Pace of contraction slowing down



Source: PSR, Companies

Figure 61: Volumes are still poor



Source: PSR, CEIC

Telecommunications **OVERWEIGHT**

- Both telcos are undergoing a restructuring. StarHub is at the tail end of its S$270mn DARE+ investments to transform the IT systems to further digitalise processes and customer experience and Singtel announced additional plans to reduce S$600mn of operating costs in addition to its S$4bn monetization efforts.
- NetLink NBN Trust announced lower residential fibre connection charges of 2% following a review process with IMDA conducted every 5 years. The impact on distribution is minimal.
- We are **OVERWEIGHT** on the sector. The telcos are enjoying rising mobile prices and undergoing restructuring to lower costs, monetize assets and further digitalise their processes. Any consolidation in the industry will be a bonus.

2023 Review

The sector is down 3% this year (2022: +8%), dragged by weakness in Singtel (-4%). Other operators were up - StarHub (+7%) and NetLink (+1%) performed better. Singtel suffered from poor profitability at Optus (Figure 62), made worse by a nationwide network outage at Optus. Australia is faced with huge mobile competition from 40 mobile virtual network operators (MVNOs) anchoring down mobile prices. Associates are performing better with mobile price repair underway in Thailand, India, and Indonesia. Bharti continues to lead the growth in earnings (Figure 63).

StarHub's results were better than expected. The budgeted DARE+ investments have been cut by S$40mn to S$270mn. The revenue opportunities have yet to materialise significantly. NetLink's growth has been muted. Residential fibre connections are annualising at 12,000, below our forecasted 22,000 (Figure 64) due to delays in housing completions and lags in the delivery of the service.

Singtel and StarHub are embarking on the journey to extend their business from telco services to IT services. Through NCS, Singtel is building up its headcount to expand beyond Singapore government-related business into the region, especially Australia. Meanwhile, StarHub is expanding into the region following its spate of IT service company acquisitions in Malaysia and Hong Kong. The two key services will be cybersecurity (Ensign) and cloud infinity (improve cloud connectivity and latency for enterprises and data centres).

Outlook

We are upbeat on the sector for 2024. We expect earnings to improve as mobile repair is underway (Figure 65). Higher mobile prices are due to industry consolidation and rising cost pressure. An improving economy and lower inflation will also support spending on prepaid services particularly for emerging countries. Singapore's mobile sector is facing more intense competition from MVNOs (Figure 67) but roaming revenue will support margins. Australia is beginning to enjoy mobile price repair since August. Large carriers such as Optus, Telstra and MVNOs have started to price up their plans incrementally since August. Other share price drivers will be monetisation efforts by Singtel worth S$4bn and cost-cutting initiatives (S$600mn over 3 years for Singtel).

Recommendations

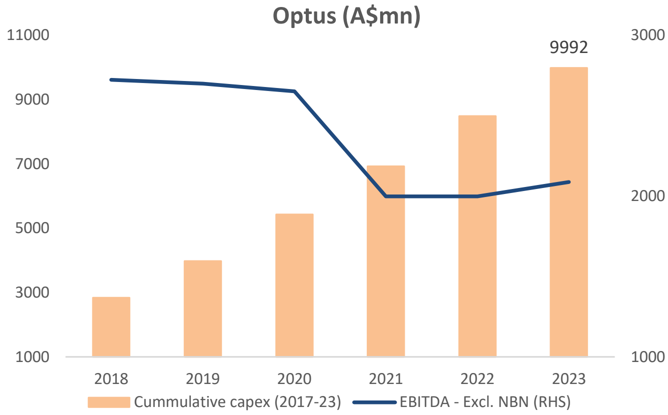
Singtel (ST SP, BUY, TP S$2.80) is making significant strides in restructuring the entire group, monetising assets, and shedding unprofitable entities. Singtel revised its payout ratio higher from 60-80% to 70-90% and announced a 3-year programme to remove S$600mn (of S$200mn p.a. FY24-26) of indirect cost.

StarHub's (STH SP, ACCUMULATE, TP S$1.21) S$270mn DARE+ investments in operating expense and capital expenditure are ending soon. We expect an improvement in earnings in FY24e (Figure 66). The trajectory of earnings post Dare+ investment hinges on the new revenue opportunities resulting from the revamp of the IT systems.

NetLink NBN Trust's (NETLINK SP, NEUTRAL, TP S$0.87) will face limited growth in DPU as residential fibre rates have been lowered, there are higher interest expenses and slower growth in residential connections. The repricing of the S$510mn interest rate hedges in 2026 will place downward pressure on distributions.

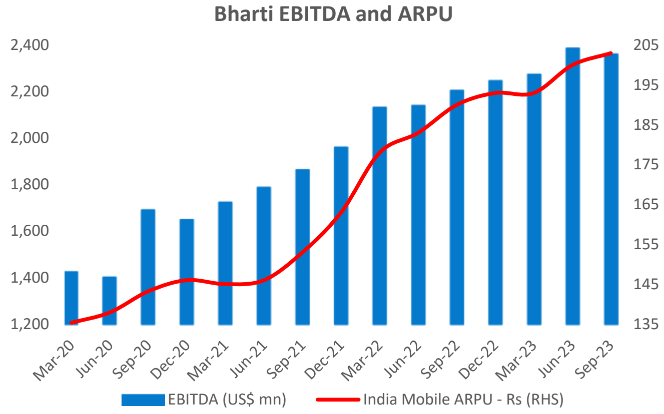
Paul Chew (+65 6212 1851)
Head of Research
paulchewkl@phillip.com.sg

Figure 6213: Despite the huge CAPEX, EBITDA is sluggish



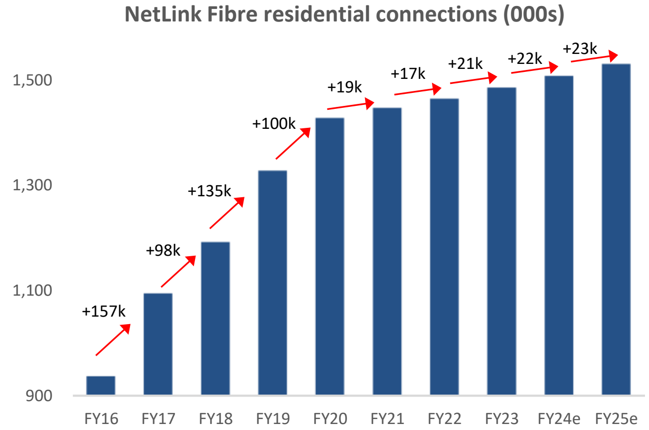
Source: PSR, Company

Figure 63: Bharti continues to build momentum



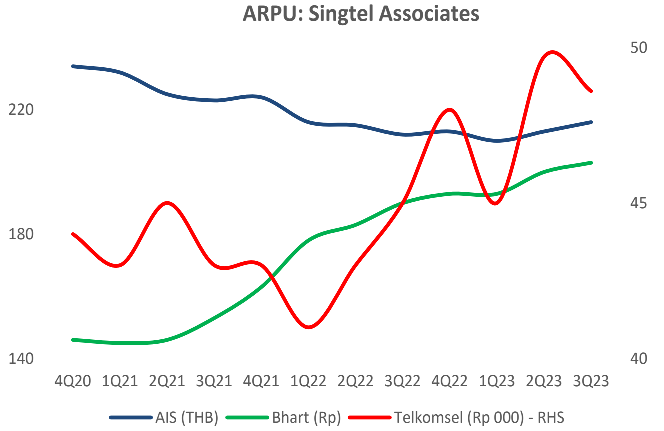
Source: PSR, Company

Figure 64: Residential fibre connections flat lining



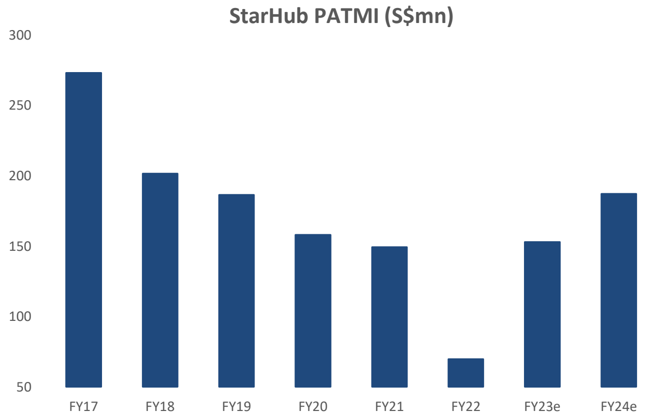
Source: PSR, Company

Figure 65: Mobile ARPU is recovering



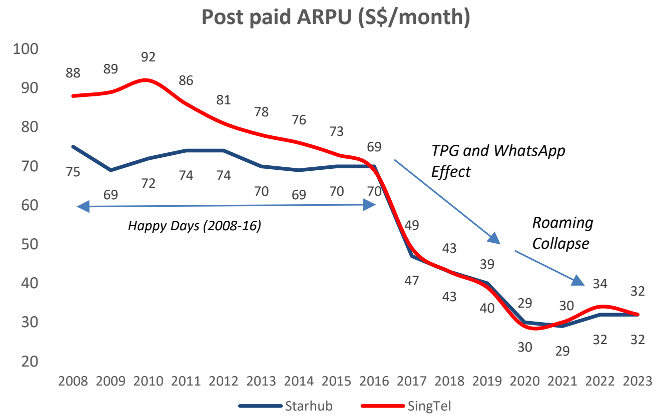
Source: PSR, Company

Figure 66: Dare+ investments ending



Source: PSR, Company

Figure 14: Singapore's mobile sector facing price pressure



Source: PSR, Company

Transportation – AIR UNDERWEIGHT

- Revenge travel demand post-Covid continued into 2023. This was mainly led by leisure travel, while corporate travel remained at 40% of pre-Covid levels. We expect growth to slow down, as passenger volume is nearing its peak, and demand could soften on a weaker macroeconomic outlook.
- Competition is intensifying as Asian airlines restore capacity, compressing yields and drive-up operating costs.
- We are **UNDERWEIGHT** on air transportation. Net profit and ROE are expected to fall with lower margins and higher capex that were deferred in the last two years.

2023 Review

Pent-up demand post re-opening. Air travel demand took flight in early 2022. Volume growth persisted into 2023 as borders progressively re-opened. However, the pace of growth has slowed down. Changi Airport October passenger volume growth eased to 38.8% YoY and is just 9.4% below Oct 2019's level (Figure 68). SIA revenue passenger km also moderated to +17.6% in Nov 23 (Figure 69).

Cargo revenue faced a double whammy of declining loads and more belly-hold capacity from passenger flights. Changi Airport's airfreight volume declined 13.4% in the first 10 months of 2023, after falling 5% in 2022, hurt by a slowdown in global trade. However, the trend reversed in Oct 23, with a small uptick of +0.7% YoY, the first in 15 months (Figure 70). SIA's cargo volume turned in positive YoY growth from Aug 23 (Figure 71).

Passenger yields contracted. High fares and high load factors pushed up yields. Revenue per available seat-km (RASK) surged in FY23 to 10.9 cents (Figure 72). We do not think this is sustainable. Airfares are expected to normalise with a cutback in leisure travel and more options available on other carriers. Average spend on air tickets in Nov 23 was 9.3% lower than Jan 23 (Figure 73). This reflects lower ticket prices and a bigger share of budget carriers. Scoot carried 33.5% of SIA's passenger loads in Nov 2023.

Jet fuel price eased 18.8% YTD, after a 75% increase in 2022, which helped to offset the rise in staff costs.

Outlook

SIA's passenger capacity and loads are peaking. Though SIA's Nov 23 passenger capacity and loads are 8.2% and 5% below 2019 levels, we believe further growth is limited, due to 1) surge in geopolitical tensions; 2) manpower constraints; and 3) supply chain issues for engines and parts.

Asian airlines are restoring capacity, intensifying competition. Heightened competition is likely to depress airfares and passenger yields. At the same time, fuel costs could rise with higher jet fuel demand and price.

Cargo volume could pick up from 2H24, if the recovery in the tech sector shapes up. However, SIA's cargo yields, which are still 37% above pre-Covid levels, are expected to trend lower. Manufacturing bases have become more diversified post-Covid, and reduce the need for cargo movements in the longer term.

Recommendations

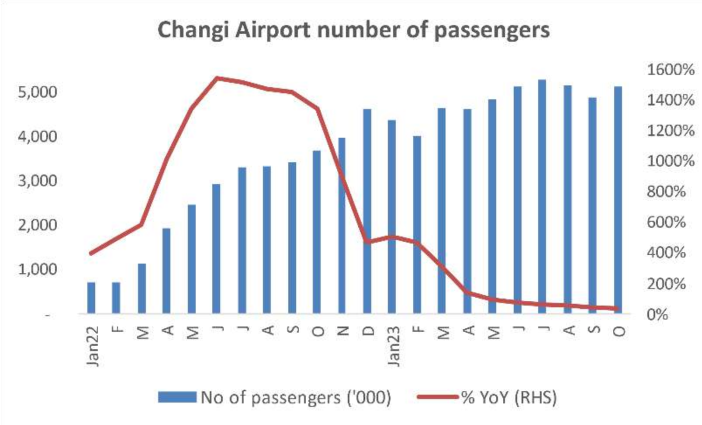
We **UNDERWEIGHT** the air transportation sector.

- **SIA (SIA SP, REDUCE, TP S$5.45)** After an exceptional FY23 and 1H24, net profits are expected to decline. Our TP, at 1x FY24e P/B, takes into account an ex-growth operating environment with yields and loads under pressure from increased competition and the fading away of travel demand.

- **SATS (SATS SP, REDUCE, TP S$2.23)** Net debt has risen to S$2.3bn, and gearing at 0.9x as at end Sep 2023, after the consolidation of WFS from April 2023. Food solutions segment remained weak, beset by competition, lower distribution revenue, higher share of passengers on budget carriers, and rising costs. Higher interest expense is a drag on profitability and cash flow.

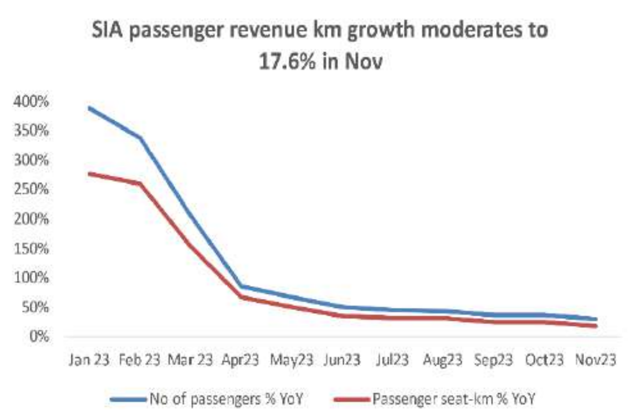
Peggy Mak (+65 6212 1852)
Research Manager
peggymak@phillip.com.sg

Figure 68: Passenger volume at 9.4% below pre-Covid



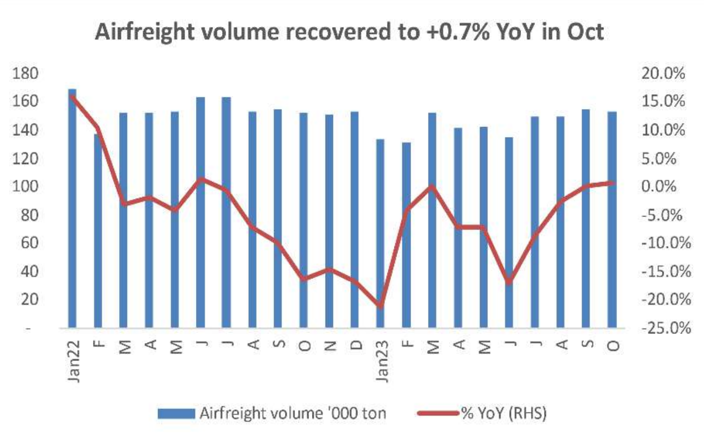
Source: PSR, Changi Airport

Figure 69: SIA passenger growth moderating



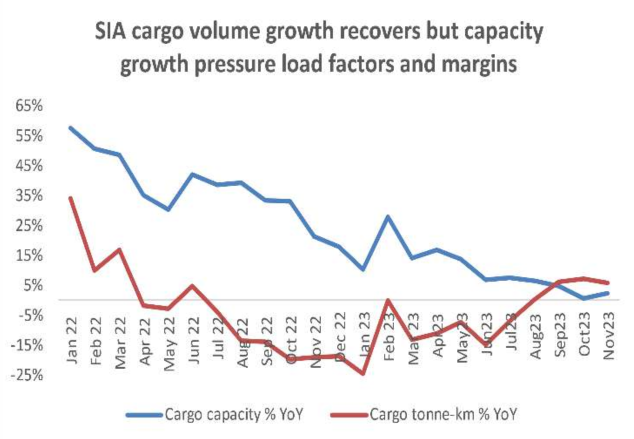
Source: PSR, Changi Airport

Figure 70: Airfreight volume recorded first positive growth



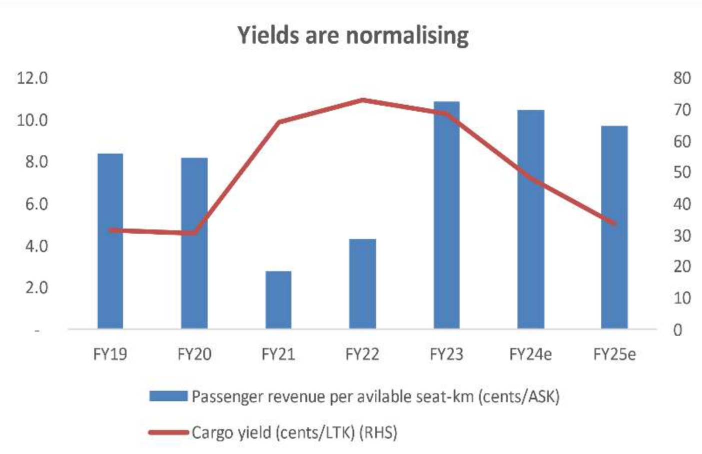
Source: PSR, Changi Airport

Figure 71: SIA cargo volume recovering



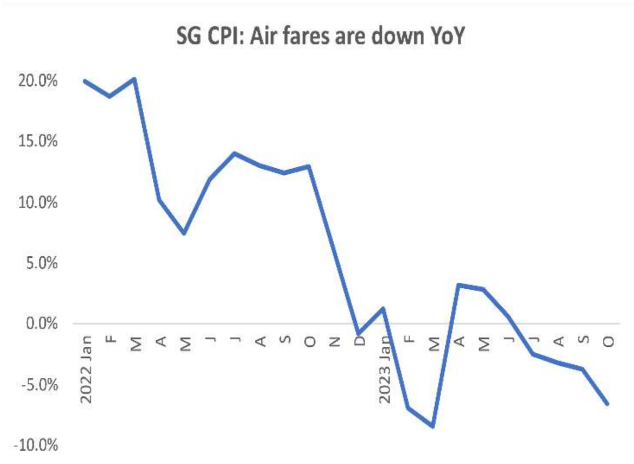
Source: PSR, SIA

Figure 72: Passenger and cargo yields on a declining trend



Source: PSR, SIA

Figure 73: Declining air fares reflect lower ticket prices and a higher share of seats on budget carriers



Source: PSR, Singstat

PhillipCapital

Frasers Centrepoint Trust

Resilient suburban malls with high occupancy

StocksBnB.com

SINGAPORE | REAL ESTATE (REIT) | UPDATE

- High Portfolio occupancy of 99.7% with 4.7% positive rental reversions for FY23.
- FY23 tenants' sales and shopper traffic improved 7.3% and 24.7% YoY, respectively. YTD tenants' sales averaged c.17% above pre-COVID levels. Retail portfolio valuation rose by S$52.7mn YoY to S$8.42bn post-divestment of Changi City Point with unchanged cap rates.
- Maintain ACCUMULATE, with DDM-based TP (COE: 6.90%) of S$2.29. We expect positive rental reversions to remain intact for FY24e, supported by the low occupancy cost of 15.6% and tenants' sales growth.

Company Background

Frasers Centrepoint Trust ("FCT") is a leading developer-sponsored retail real estate investment trust ("REIT") with assets under management of approximately S$6.5 billion. FCT is one of the largest suburban retail mall owners in Singapore. Its Singapore retail portfolio includes Causeway Point, Century Square, Hougang Mall, NEX (effective 25.50%-interest), Northpoint City North Wing (including Yishun 10 Retail Podium), Tampines 1, Tiong Bahru Plaza, Waterway Point (50.00%-interest) and White Sands. These retail malls are near homes and within minutes of transportation amenities. The Singapore retail portfolio has approximately 2.7 million square feet of net lettable area with over 1,600 leases with a strong focus on necessity spending, food & beverage, and essential services.

Investment Merits/Outlook

- **Retail portfolio occupancy is nearly full at 99.7% with positive rental reversions.** Excluding Tampines 1 which is undergoing AEI, occupancy at all nine malls came in at 99% or higher. Rental reversions for the retail portfolio were +4.7% for FY23; and we expect similar rental reversions for FY24e, when 29.3% of leases by GRI will be expiring.

- **Tenants' sales and shopper traffic** continued to grow 7.3% and 24.7% YoY, respectively for FY23 indicating robust demand. FY23 tenants' sales averaged c.17% above pre-COVID levels. Improving tenants' sales should lower occupancy costs further (currently at 15.6% and 6-year lows), and this should support FCT's ability to raise rents.

- **Stable retail portfolio valuations with a visible inorganic growth pipeline.** Suburban retail malls in Singapore continue to exhibit resilience despite rising interest rates. FY23 year-end retail portfolio valuations increased by S$52.7mn to S$8.42bn. Inorganic growth opportunities include the acquisition of the sponsor's pipeline of assets such as the 24.5% effective interest in NEX and Northpoint City South Wing.

- **No refinancing risks in FY24.** After S$353.5mn, or 16%, of the total debt that was originally due in FY24 has been refinanced to FY29, there are no more refinancing requirements in FY24. 63% of total debt has been hedged to a fixed rate, and the YTD all-in cost of debt is at 3.8%. We expect the all-in cost of debt to increase to above 4% in FY24e. ICR remains healthy at 3.47x. Gearing, currently at 39.3%, is expected to drop to 36.1% on a pro forma basis assuming the net proceeds from the divestment of Changi City Point and interest in Hektar REIT are used to repay certain debts.

Recommendation

Maintain ACCUMULATE and a DDM target price of S$2.29. The current share price implies an FY24e DPU yield of 5.5%.

2 January 2024

ACCUMULATE (Maintained)

LAST DONE PRICE	SGD 2.26
FORECAST DIV	SGD 0.121
TARGET PRICE	SGD 2.29
TOTAL RETURN	6.5%

COMPANY DATA

BLOOMBERG CODE:	FCT SP
O/S SHARES (MN) :	1,712
MARKET CAP (USD mn / SGD mn) :	2933 / 3869
52 - WK HI/LO (SGD) :	2.35 / 2.01
3M Average Daily T/O (mn) :	2.69

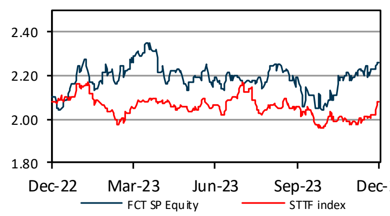
MAJOR SHAREHOLDERS

FRASERS PROPERTY LTD	41.2%
VANGUARD GROUP INC	2.4%
SCHRODERS PLC	1.9%
BLACKROCK INC	1.8%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	3.7	6.2	13.9
STTF RETURN	5.2	1.0	4.0

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Sept	FY22	FY23	FY24e	FY25e
Gross Rev (SGD mn)	357	370	357	363
NPI (SGD mn)	259	266	252	256
Dist Inc. (SGD mn)	208	208	207	212
P/NAV (x)	0.97	0.97	0.98	0.98
DPU, adj (Cents)	12.23	12.15	12.07	12.35
Distribution Yield	5.4%	5.4%	5.3%	5.5%

Source: Company, PSR

Valuation Method

DDM (Cost of equity 6.90%, Terminal Growth 1.5%)

Darren Chan (+65 6212 1849)
Senior Research Analyst
darrenchanrx@phillip.com.sg

Financials

Statement of Total Return and Distribution Statement

Y/E Sep, SGD mn	FY21	FY22	FY23	FY24e	FY25e
Gross Revenue	341	357	370	357	363
Total Property expenses	(95)	(98)	(104)	(105)	(107)
Net Property Income	**247**	**259**	**266**	**252**	**256**
Net Finance (Expense)/Inc	(46)	(47)	(81)	(76)	(76)
Trust expenses	(3)	(4)	(4)	(3)	(3)
Manager's management fees	(32)	(33)	(35)	(31)	(29)
Net Income	**166**	**176**	**149**	**142**	**148**
Share of associate's results	(1)	(1)	6	-	-
Share of JV's results	17	25	51	48	49
Other Adjustments	16	12	20	18	16
Distribution to Unitholders	**205**	**208**	**208**	**207**	**212**

Per share data

Y/E Sep, SGD	FY21	FY22	FY23	FY24e	FY25e
NAV	2.30	2.33	2.32	2.31	2.31
DPU (Cents)	12.09	12.23	12.15	12.07	12.35

Balance Sheet

Y/E Sep, SGD mn	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
Investment properties	5,507	5,516	5,221	5,225	5,230
Investment in Associates	46	41	-	-	-
Non Current Assets	**5,848**	**5,891**	**5,966**	**5,972**	**5,979**
Trade and Other Receivables	9.0	8.9	8.8	10.7	10.9
Cash and Cash Equivalents	42	38	32	55	52
Current Assets	**51**	**50**	**409**	**70**	**67**
Total Assets	**5,899**	**5,941**	**6,375**	**6,042**	**6,046**
LIABILITIES					
Interest bearing borrowings	1,604	1,419	1,842	1,360	1,323
Others	54	50	56	56	56
Non-Current Liabilities	**1,658**	**1,470**	**1,898**	**1,416**	**1,379**
Trade and other payables	76	71	95	92	93
Interest bearing borrowings	205	391	353	513	553
Others	42	46	55	55	55
Current Liabilities	**322**	**507**	**504**	**660**	**701**
Total Liabilities	**1,980**	**1,977**	**2,402**	**2,076**	**2,080**
EQUITY					
Shareholder Equity	**3,919**	**3,964**	**3,973**	**3,966**	**3,965**

Cash Flow

Y/E Sep, SGD mn	FY21	FY22	FY23	FY24e	FY25e
CFO					
Net Income	172	201	212	190	197
Adjustments	43	25	28	37	35
WC changes	(5)	9	3	(5)	1
Cashflow from operating activities	**198**	**234**	**243**	**222**	**234**
CFI					
Capex on inv properties	-	(6)	(8)	(5)	(5)
Others	(471)	22	(349)	411	48
Cashflow from investing activities	**(471)**	**16**	**(357)**	**407**	**43**
CFF					
Share issuance	1,335	-	-	-	-
Distributions to Unitholders	(150)	(208)	(208)	(208)	(207)
Others	(899)	(46)	316	(398)	(73)
Cashflow from financing activities	**286**	**(254)**	**108**	**(606)**	**(280)**
Net change in cash	**14**	**(4)**	**(6)**	**23**	**(3)**
CCE, end	**42**	**38**	**32**	**55**	**52**

Valuation Ratios

Y/E Sep	FY21	FY22	FY23	FY24e	FY25e
P/NAV (x)	0.98	0.97	0.97	0.98	0.98
Distribution yield	5.3%	5.4%	5.4%	5.3%	5.5%
NPI yield	4.5%	4.7%	5.1%	4.8%	4.9%
Growth & Margins	**FY22**	**FY23**	**FY24e**	**FY25e**	**FY26e**
Growth					
Revenue	107.5%	4.6%	3.6%	-3.5%	1.8%
Net property income (NPI)	122.4%	4.9%	2.7%	-5.2%	1.8%
DPU	33.7%	1.2%	-0.6%	-0.7%	2.4%
Margins					
NPI margin	72.3%	72.5%	71.8%	70.6%	70.6%
Net Income Margin	48.6%	49.2%	40.3%	39.8%	40.7%
Key Ratios					
Gearing	32.9%	32.8%	39.3%	35.8%	35.9%
ROA	2.8%	3.0%	2.3%	2.3%	2.4%
ROE	4.2%	4.4%	3.8%	3.6%	3.7%
Interest coverage ratio (x)	5.38	5.53	3.29	3.32	3.38

Source: Company, Phillip Securities Research (Singapore) Estimates

PhillipCapital

Oversea-Chinese Banking Corp Ltd

Upside in dividends and fee income recovery

BULL AND BEAR StocksBnB.com

SINGAPORE | BANKING | UPDATE

- NIM and NII expansion was due to the higher-for-longer interest rate environment despite a dip in loans growth. Guidance is for low-single digit loans growth and higher NIM of around 2.25% for FY23e.
- Fee income grew to the highest level in 4 quarters, with AUM 8% higher YoY. We could expect high single to double-digit fee income growth for FY24e.
- It has the highest capital ratio of 14.8% among the three local banks. We believe an upside in dividends is possible.
- Maintain BUY with an unchanged target price of S$14.96.

Background

Oversea-Chinese Banking Corp Ltd (OCBC) is the longest established Singapore bank, formed in 1932 from the merger of three local banks, the oldest of which was founded in 1912. It is now the second-largest financial services group in Southeast Asia by assets. OCBC's services include commercial banking, specialist financial and wealth management services, ranging from consumer, corporate, investment, private and transaction banking to treasury, insurance, asset management, and stockbroking services. OCBC's key markets are Singapore, Malaysia, Indonesia, and Greater China, and it has more than 470 branches and representative offices in 19 countries and regions.

Investment Merits/Outlook

Net interest income grew 17% YoY: NII grew 17% YoY in 3Q23 led by NIM improvement of 21bps YoY to 2.27% despite loan growth dipping 2% YoY. NIM expansion was mainly driven by higher margins across the Group's key markets. However, NII only rose 3% QoQ as NIM rose 1bps QoQ as a rise in asset yields more than outpaced the increase in funding costs. Nonetheless, OCBC has increased its NIM guidance for FY23e from above 2.20% to around 2.25% while maintaining loan growth guidance of low-single digit.

Fee income grew to the highest level in 4 quarters: Fee income rose 2% YoY to reach the highest level in 4 quarters. This was due to the growth in wealth management fees from increased customer activities and higher credit card fees. Furthermore, the Group's wealth management income grew 16% YoY to S$1.12bn and contributed 33% to the Group's total income in 3Q23. OCBC's wealth management AUM was 8% higher YoY at S$270bn driven by continued net new money inflows. With the re-opening of China, OCBC is positive on the broader outlook and expects the re-opening to support China-Southeast Asia trade and investment flows. We could expect high single to double-digit fee income growth for FY24e.

Highest capital ratios: While OCBC's Common Equity Tier 1 (CET1) dipped 6bps QoQ, it rose 4bps YoY to 14.8%, and remains the highest among the three local banks (DBS: 14.1% and UOB: 13.0%). We believe there is an upside in dividends from its high 14.8% CET1 buffer and excess liquidity.

Commercial real estate office sector: Commercial real estate office sector loans are mostly to network customers in key markets with a proven track record and financial strength. Overall LTVs are low at around 50% to 60% and are mostly secured. Overall, the commercial real estate office sector loans make up 13% of the total loan book, with two-thirds of loans to key markets of Singapore, Malaysia, Indonesia, and Greater China. Loans to developed markets including Australia, the United Kingdom, and the United States are largely to network customers with strong sponsors.

Recommendation

Maintain BUY with an unchanged target price of S$14.96.

2 January 2024

BUY (Maintained)

LAST CLOSE PRICE	SGD 13.00
FORECAST DIV	SGD 0.85
TARGET PRICE	SGD 14.96
DIVIDEND YIELD	6.5%
TOTAL RETURN	21.6%

COMPANY DATA

BLOOMBERG TICKER	OCBC SP
O/S SHARES (MN) :	4,494
MARKET CAP (USD mn / SGD mn) :	44296 / 58427
52 - WK HI/LO (SGD) :	13.39 / 11.93
3M Average Daily T/O (mn) :	4.39

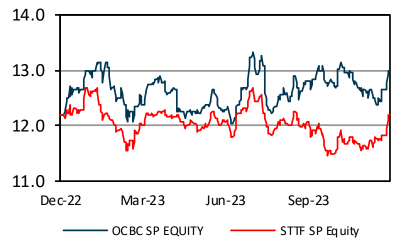
MAJOR SHAREHOLDERS (%)

Selat Pte Limited	11.2%
Lee Foundation Singapore	4.4%
Lee Rubber Company Pte Ltd	3.2%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	3.7	1.5	13.7
STTF RETURN	5.2	1.0	4.0

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (SGD mn)	FY21	FY22	FY23e	FY24e
Total Income	10,596	11,675	13,248	13,964
Op. Profit	3,880	5,273	6,757	7,228
NPAT, adj.	4,858	5,748	7,026	7,608
EPS (SGD)	1.08	1.28	1.57	1.70
PER, adj. (x)	12.0	10.2	8.3	7.6
P/BV, x	1.1	1.1	1.0	1.0
DPS (S$)	0.53	0.68	0.85	0.90
ROE	9.5%	10.9%	12.8%	13.0%

Source: Bloomberg, Company, PSR

Valuation Method:

Gordon Growth Model (COE: 8.8%, g: 2%)

Glenn Thum (+65 6212 1851)
Senior Research Analyst
glennthumjc@phillip.com.sg

Financials

Income Statement

Y/E Dec, SGD mn	FY20	FY21	FY22	FY23e	FY24e
Net Int Income	5,966	5,855	7,688	9,117	9,252
Fees and Commission	2,003	2,245	1,851	1,981	2,218
Other Non int income	2,167	2,496	2,136	2,151	2,494
Total operating income	**10,136**	**10,596**	**11,675**	**13,248**	**13,964**
Operating expenses	(4,439)	(4,764)	(5,026)	(5,390)	(5,640)
Operating profit	**1,403**	**3,880**	**5,273**	**6,757**	**7,228**
Provisions and others	(2,147)	(976)	(688)	(551)	(548)
Associates & JVs	612	824	978	1,174	1,408
Profit Before Tax	**4,162**	**5,680**	**6,939**	**8,481**	**9,185**
Taxation	(437)	(648)	(1,057)	(1,292)	(1,399)
Profit After Tax	**3,725**	**5,032**	**5,882**	**7,190**	**7,786**
Non-controlling Interest	142	174	134	164	177
Net Income, adj.	**3,583**	**4,858**	**5,748**	**7,026**	**7,608**

Balance Sheet

Y/E Dec, SGD mn	FY20	FY21	FY22	FY23e	FY24e
Cash bal with central banks	26,525	27,919	34,966	45,501	44,343
Due from banks	32,816	25,462	30,244	30,828	30,867
Debt and equity securities	33,143	34,015	28,010	25,892	25,924
Loans and bills receivable	263,538	286,281	291,467	299,681	306,547
Life Assur. Fund Inv. Assets	97,068	100,096	97,995	100,935	103,963
Others	68,305	68,414	77,274	74,550	74,701
Total Assets	**521,395**	**542,187**	**559,956**	**577,387**	**586,345**
Due to banks	9,586	8,239	10,046	13,281	13,330
Due to non-bank customers	314,907	342,395	350,081	357,775	362,084
Life Assur. Fund Liabilities	94,454	96,306	94,946	97,794	100,728
Debts issued	24,355	20,115	21,938	21,152	21,310
Others	26,917	20,794	28,277	29,118	29,985
Total liabilities	**470,219**	**487,849**	**505,288**	**519,121**	**527,437**
Shareholder's equity	49,622	52,664	53,090	56,527	60,088
Non-controlling interest	1,554	1,675	1,581	1,745	-1,173
Total Equity	**51,176**	**54,339**	**54,671**	**58,272**	**58,915**

Per share data (SGD)

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
EPS, reported	0.80	1.08	1.28	1.57	1.70
EPS, adj.	0.80	1.08	1.28	1.57	1.70
DPS	0.32	0.53	0.68	0.85	0.90
BVPS	11.09	11.72	11.81	12.61	13.31
Dividend payout ratio	40%	49%	53%	54%	53%

Supplementary items

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
CET1 CAR	15.2%	15.5%	15.2%	16.2%	17.3%
Tier 1 CAR	15.8%	16.0%	15.9%	16.9%	18.0%
Total CAR	17.9%	17.6%	17.7%	18.6%	19.7%

Valuation Ratios

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
P/E (X), adj.	16.2	12.0	10.2	8.3	7.6
P/B (X)	1.2	1.1	1.1	1.0	1.0
Dividend Yield	2.4%	4.1%	5.2%	6.5%	6.9%
Growth & Margins					
Growth					
Net int income	-5.8%	-1.9%	31.3%	18.6%	1.5%
Non int income	-8.2%	13.7%	-15.9%	3.6%	14.1%
Pre provision operating profit	-6.8%	4.5%	10.2%	13.5%	5.4%
Operating income	-32.2%	36.8%	22.8%	22.6%	6.4%
Net income, reported	-26.4%	35.6%	18.3%	22.2%	8.3%
Net income, adj	-26.4%	35.6%	18.3%	22.2%	8.3%
Margins					
Net interest margin	1.61%	1.54%	1.91%	2.22%	2.20%
Key Ratios					
ROE	7.4%	9.5%	10.9%	12.8%	13.0%
ROA	0.8%	1.1%	1.2%	1.5%	1.6%
RORWA	1.6%	2.2%	2.5%	2.9%	3.1%
Non-int/total income ratio	41.1%	44.7%	34.1%	31.2%	33.7%
Cost/income ratio	43.8%	45.0%	43.0%	40.7%	40.4%
Loan/deposit ratio	83.7%	83.6%	83.3%	83.8%	84.7%
NPL ratio	1.5%	1.5%	1.1%	1.1%	1.1%

Source: Company, Phillip Securities Research (Singapore) Estimates

PhillipCapital

China Aviation Oil (Singapore)

International flights take off

StocksBnB.com

SINGAPORE | TRANSPORT | UPDATE

- International passenger traffic in China surged 12-fold in the first 11 months of 2023. The recovery still has legs. Nov 23's volume was just 55% of Nov 19's level and estimated to reach 71% in Mar 2024. Demand could be turbocharged with the easing of visa restrictions for Chinese tourists in some Asian countries.
- Major Chinese airlines have returned to profitability in 3Q23 and booked positive operating cash flows in 1H23. They have resumed taking deliveries of aircraft on order. China Eastern and Air China recently placed new orders for passenger jets, scheduled for delivery in 2024.
- Maintain BUY with a TP of S$1.01, derived from DCF model. We expect net profit to double over the next two years. About 56% of the market cap is in net cash of US$308mn (as at end 2022).

Background

CAO supplies imported jet fuel to international airports across the PRC. It is 51.3%-owned by state-owned China National Aviation Fuel Group Limited, which holds the mandate to supply all jet fuel requirements in China. CAO also markets jet fuel to airports outside China and engages in international trading of jet fuel and other oil products, as well as carbon credits. It has a 33% stake in Shanghai Pudong International Airport Aviation Fuel Supply Company Ltd (SPIA), the exclusive refueling agent for flights operating out of the Shanghai Pudong Airport. SPIA accounted for 62% of net profit in FY22.

Investment Merits/Outlook

- **International passenger traffic in China leapt 12-fold in the first 11 months of 2023.** The recovery still has legs in the next two years. Nov 23's passenger seat-km was just 55% of Nov 19's level. By Mar 2024, this would reach 71%, according to the winter/summer flight plan rolled out by the Civil Aviation Administration of China. Demand could be turbocharged by the easing of visa restrictions. China commanded a dominant share of 9% of global and 24% of Asia's international travel in 2019, and IATA estimates a full recovery in 2025.
- **The major Chinese carriers returned to profitability in 3Q23.** They have also booked positive operating cash flows in 1H23 and strengthened their balance sheets to take deliveries of aircraft on orders. Both China Eastern and Air China recently placed new orders for passenger jets, scheduled for delivery from 2024.
- **CAO could potentially supply jet fuel to more international airports in China.** CAO currently supplies mainly to five key international airports – Guangzhou Baiyun, Shenzhen Baoan, Shanghai Pudong, Beijing Capital and Shanghai Hongqiao. It is expanding its footprint to other international airports which are gaining share of international travelers such as Kunming, Chongqing and Bejing Daxin.
- **Balance sheet is backed by net cash of US$308mn as at Dec 2022,** equivalent to 56% of market cap.

Recommendation

Our TP is based on the discounted cash flow model (WACC 15%, terminal growth 1%). Its operations are asset-light. The balance sheet comprises mainly cash (as at Dec 22: S$0.49/share), investments in associates and working capital. We expect ROIC to rise to 10% in FY23e and 14.4% in FY24e (FY22: 5.6%).

2 January 2024

BUY (MAINTAINED)

LAST CLOSE PRICE	SGD 0.875
FORECAST DIV	SGD 0.017
TARGET PRICE	SGD 1.010
TOTAL RETURN	**17.4%**

COMPANY DATA

BLOOMBERG CODE:	CAO SP
O/S SHARES (MN) :	860
MARKET CAP (USD mn / SGD mn) :	570 / 753
52 - WK HI/LO (SGD) :	1.1 / 0.73
3M Average Daily T/O (mn) :	0.35

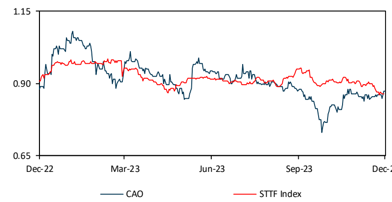
MAJOR SHAREHOLDERS (%)

CHINA NATIONAL AVIATION FUEL GROUP	51.3%
BP INVESTMENTS ASIA LTD	20.2%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	1.2	0.0	(1.0)
STTF RETURN	4.9	0.9	3.4

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (US$, 'mn)	FY21	FY22	FY23e	FY24e
Revenue	17,637	16,464	15,641	25,025
Gross Profit	31	35	34	54
EBIT	46	39	55	77
NPAT	40	34	48	67
P/NAV (x)	0.6	0.6	0.6	0.6
P/E (x)	14.1	17.0	11.8	8.5
ROE (%)	4.5%	3.7%	5.2%	6.8%

Source: Company, PSR

VALUATION METHOD

DCF (WACC: 15%, Terminal g: 1%)

Peggy Mak (+65 6212 1852)
Research Manager
peggymak@phillip.com.sg

Financials

Income Statement

Y/E Dec, (US$'mn)	FY20	FY21	FY22	FY23e	FY24e
Revenue	**10,517**	**17,637**	**16,464**	**15,641**	**25,025**
Cost of sales	(10,471)	(17,606)	(16,429)	(15,607)	(24,972)
Gross Profit	**46**	**31**	**35**	**34**	**54**
Other operating income	7	2	1	18	14
Administration	(14)	(11)	(14)	(14)	(22)
Other expenses	(2)	1	(1)	(1)	(1)
Share of results of associates an	25	24	18	18	32
EBIT	**61**	**46**	**39**	**55**	**77**
Net finance expenses	(1)	(2)	(1)	(1)	(1)
Profit before tax	**60**	**44**	**38**	**54**	**76**
Taxation	(4)	(4)	(5)	(5)	(8)
Net Profit	**56**	**40**	**33**	**48**	**68**
Minority interests	-	-	0	-	(1)
Profit attributable to owners	**56**	**40**	**34**	**48**	**67**

Per share data (US$ cents)

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
BVPS	101.9	104.8	105.0	108.9	114.4
DPS (S$ cents)	4.7	2.6	1.6	1.7	2.3
EPS	6.5	4.7	3.9	5.6	7.8

Cash Flow

Y/E Dec, (US$'mn)	FY20	FY21	FY22	FY23e	FY24e
CFO					
Pretax profit	**60**	**44**	**38**	**54**	**76**
Adjustments	3	(27)	(11)	(12)	(26)
WC changes	(228)	96	(114)	96	(5)
Cash generated from ops	**(164)**	**113**	**(87)**	**138**	**45**
Others	94	44	23	31	43
Cashflow from ops	**(70)**	**157**	**(65)**	**169**	**87**
CFI					
CAPEX, net	(0)	(0)	(0)	(2)	(2)
Others	(0)	(0)	1	-	-
Cashflow from investments	**(0)**	**(0)**	**0**	**(2)**	**(2)**
CFF					
Dividends paid to owners	(29)	(17)	(12)	(15)	(20)
Proceeds from borrowings, net	(11)	(8)	(15)	-	-
Others	-	-	-	-	-
Cashflow from financing	(40)	(25)	(26)	(15)	(20)
Net change in cash	(110)	132	(91)	153	65
Cash at the start of the period	379	269	401	308	461
Currency translation	0	(0)	(2)	-	-
Ending cash	**269**	**401**	**308**	**461**	**526**

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, (US$'mn)	FY20	FY21	FY22	FY23e	FY24e
ASSETS					
PPE & Investment Properties	4	4	5	4	3
Others	316	304	288	270	255
Total non-current assets	**321**	**308**	**294**	**274**	**258**
Cash and cash equivalents	269	401	308	461	526
Inventories	91	43	182	128	205
Trade and other receivables	1,207	784	716	643	891
Others	-	-	-	-	-
Total current assets	**1,567**	**1,228**	**1,206**	**1,232**	**1,623**
Total Assets	**1,888**	**1,536**	**1,500**	**1,506**	**1,881**
LIABILITIES					
Trade and other payables	989	605	565	534	855
ST borrowings	-	-	-	-	-
Others	15	15	16	19	25
Total current liabilities	**1,004**	**620**	**580**	**553**	**880**
LT borrowings	-	-	-	-	-
Others	7	14	12	12	12
Total non-current liabilities	**7**	**14**	**12**	**12**	**12**
Total liabilities	**1,011**	**634**	**592**	**565**	**892**
EQUITY					
Share Capital	216	216	216	216	216
Retained profits	661	686	687	721	768
Others	-	-	-	-	-
Total equity	**877**	**901**	**903**	**937**	**984**
Minority interests			4	4	5
Total equity and liabilities	**1,888**	**1,536**	**1,500**	**1,506**	**1,881**

Valuation Ratios

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	10.1	14.1	17.0	11.8	8.5
P/B (x)	0.7	0.6	0.6	0.6	0.6
EV/EBITDA (x)	6.2	5.3	8.5	2.4	0.8
Dividend yield (%)	5.4	2.9	1.8	1.9	2.7
Growth & Margins (%)					
Growth					
Revenue	-48.3%	67.7%	-6.6%	-5.0%	60.0%
Gross profit	-21.5%	-33.1%	15.3%	-5.0%	60.0%
EBIT	-43.8%	-24.9%	-15.8%	41.4%	39.3%
PBT	-43.4%	-26.2%	-15.1%	42.7%	40.4%
Margins					
Gross profit margin	0.4%	0.2%	0.2%	0.2%	0.2%
EBIT margin	0.6%	0.3%	0.2%	0.4%	0.3%
Net profit margin	0.5%	0.2%	0.2%	0.3%	0.3%
Key Ratios					
ROE	6.4%	4.5%	3.7%	5.2%	6.8%
ROA	2.6%	2.1%	2.1%	3.1%	2.9%
Net Gearing	0.0%	0.0%	0.0%	0.0%	0.0%

PhillipCapital

ST Engineering

Defensive earnings, lift-off in MRO demand

BULL AND BEAR StocksBnB.com

2 January 2024

SINGAPORE | CONGLOMERATE | UPDATE

- Defence spending and stockpiling are expected to trend higher, fuelled by an elevation in armed conflicts and geopolitical unrest. Global military spending rose at 6% per year over the last two years.
- The robust demand for air travel amidst a shortage in hangar capacity has led to more aerospace MRO work.
- Maintain BUY with a TP of S$4.50, derived from DCF model. The operations generate strong cash flows and superior returns. ROE and ROIC are expected to reach 26% and 14% in FY24e, respectively.

Background

ST Engineering is a global technology, defence and engineering group with a portfolio of businesses across the aerospace, smart city, defence and public security segments. Though it has built a strong reputation in research and development capability in advanced defence and mobility technologies, about two-thirds of its revenue is derived from commercial projects. New contract wins of S$11.7bn secured in 9M23 took the order book to a record S$27.5bn as at Sep 23.

Investment Merits/Outlook

- **Heightened geopolitical tensions.** Global military spending rose at a faster rate of 6% per annum in the last two years, compared with 1% from 2010 to 2020, with an elevation in armed conflicts and geopolitical unrest. The recent conflicts in the Middle East and Red Sea could spur increased defence spending and stockpiling. Defence and public security accounted for 47% of revenue and 55% of EBIT in FY22.
- **Robust air travel propels aerospace MRO.** Commercial aerospace is expected to lead revenue growth in FY23e and FY24e, underpinned by an aviation recovery amidst tight hangar capacity. STE is the world's largest airframe MRO solution provider with an extensive network of facilities across Asia Pacific, the US and Europe.
- **TransCore is on track to contribute positively from FY24e.** The New York congestion pricing project obtained the notice-to-proceed in Jun 23. Project deliveries are expected to be loaded in 2H23, and completion is expected by 2Q24. Successful delivery could be a springboard for road congestion projects in other states. STE could also apply the technology to tender for contracts in other countries such as Taiwan. On a negative note, restructuring at Satcom is expected to incur severance costs of S$7mn, resulting in lower FY23e EBIT for the urban solutions and Satcom division.
- **Strong ROE and ROIC.** FY24e ROE and ROIC could climb to 26% and 14%, respectively. The sturdy return is a function of operating leverage, defensive earnings, intellectual know-how, and a unique role as a contractor for Singapore's defence, security, and public infrastructure.

Recommendation

Our TP is based on the discounted cash flow model (WACC 6.6%, terminal growth 1%). The operations generate strong cash flows.

BUY (MAINTAINED)

LAST CLOSE PRICE	SGD 3.890
FORECAST DIV	SGD 0.160
TARGET PRICE	SGD 4.500
TOTAL RETURN	19.8%

COMPANY DATA

BLOOMBERG CODE:	STE SP
O/S SHARES (MN) :	3,115
MARKET CAP (USD mn / SGD mn) :	9177 / 12116
52 - WK HI/LO (SGD) :	3.98 / 3.32
3M Average Daily T/O (mn) :	3.21

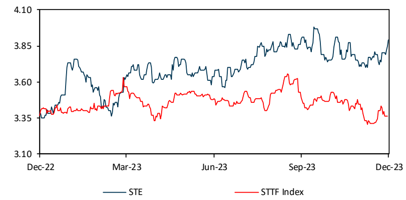
MAJOR SHAREHOLDER (%)

TEMASEK HOLDINGS	50.0%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	3.8	(0.2)	19.2
STTF RETURN	4.9	0.9	3.4

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (S$, 'mn)	FY21	FY22	FY23e	FY24e
Revenue	7,693	9,035	9,711	9,906
Gross Profit	1,535	1,699	1,909	2,194
EBIT	674	735	827	1,031
NPAT	571	535	560	692
P/NAV (x)	4.9	4.9	4.8	4.4
P/E (x)	20.5	21.9	20.9	16.9
ROE (%)	23.6%	22.3%	22.8%	26.1%

Source: Company, PSR

VALUATION METHOD

DCF (WACC: 6.6%, Terminal g: 1%)

Peggy Mak (+65 6212 1852)
Research Manager
peggymak@phillip.com.sg

Financials

Income Statement

Y/E Dec, ($'mn)	FY20	FY21	FY22	FY23e	FY24e
Revenue	**7,158**	**7,693**	**9,035**	**9,711**	**9,906**
Cost of sales	(5,631)	(6,158)	(7,336)	(7,803)	(7,712)
Gross Profit	**1,527**	**1,535**	**1,699**	**1,909**	**2,194**
Selling and distribution	(225)	(183)	(195)	(209)	(214)
Administration	(595)	(608)	(727)	(782)	(797)
Others	(141)	(87)	(75)	(124)	(185)
Share of results of associates an	30	16	33	33	33
EBIT	**596**	**674**	**735**	**827**	**1,031**
Net finance expenses	(62)	(36)	(138)	(194)	(251)
Profit before tax	**534**	**638**	**597**	**633**	**780**
Taxation	(9)	(71)	(54)	(63)	(78)
Net Profit	**526**	**567**	**543**	**570**	**702**
Minority interests	(4)	4	(8)	(10)	(10)
Profit attributable to owners	**522**	**571**	**535**	**560**	**692**

Per share data (S$ cents)

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
BVPS	73.5	77.5	77.0	79.0	85.2
DPS	15.0	15.0	16.0	16.0	16.0
EPS	16.7	18.3	17.2	18.0	22.2

Cash Flow

Y/E Dec, ($'mn)	FY20	FY21	FY22	FY23e	FY24e
CFO					
Pretax profit	**534**	**638**	**597**	**633**	**780**
Adjustments	473	446	618	755	800
WC changes	598	139	(442)	95	(39)
Cash generated from ops	**1,604**	**1,223**	**774**	**1,484**	**1,541**
Others	(117)	(118)	(133)	(308)	(255)
Cashflow from ops	**1,488**	**1,105**	**641**	**1,175**	**1,286**
CFI					
CAPEX, net	(200)	(312)	(763)	(500)	(500)
Others	(108)	(126)	(3,849)	-	-
Cashflow from investments	**(308)**	**(438)**	**(4,612)**	**(500)**	**(500)**
CFF					
Dividends paid to owners	(485)	(484)	(695)	(498)	(498)
Proceeds from borrowings, net	(399)	(49)	4,491	-	-
Others	(16)	(48)	(26)	-	-
Cashflow from financing	(900)	(581)	3,770	(498)	(498)
Net change in cash	279	86	(201)	177	288
Cash at the start of the period	452	729	816	602	779
Currency translation	(2)	1	(14)	-	-
Ending cash	**729**	**816**	**602**	**779**	**1,067**

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, ($'mn)	FY20	FY21	FY22	FY23e	FY24e
ASSETS					
PPE & Investment Properties	1,757	1,794	2,076	2,249	2,421
Others	3,216	3,365	6,761	6,466	6,186
Total non-current assets	**4,973**	**5,159**	**8,837**	**8,715**	**8,607**
Cash and cash equivalents	731	816	602	779	1,067
Inventories	1,269	1,261	1,684	1,603	1,585
Trade and other receivables	1,048	1,067	1,152	1,197	1,221
Others	1,541	2,213	2,689	2,689	2,689
Total current assets	**4,589**	**5,356**	**6,127**	**6,268**	**6,561**
Total Assets	**9,561**	**10,516**	**14,964**	**14,983**	**15,168**
LIABILITIES					
Trade and other payables	1,668	2,613	2,826	2,886	2,852
ST borrowings	496	560	3,628	3,628	3,628
Others	1,732	1,507	1,551	1,439	1,454
Total current liabilities	**3,896**	**4,680**	**8,005**	**7,953**	**7,934**
LT borrowings	1,551	1,555	2,907	2,907	2,907
Others	1,540	1,612	1,399	1,399	1,399
Total non-current liabilities	**3,091**	**3,168**	**4,306**	**4,306**	**4,306**
Total liabilities	**6,987**	**7,847**	**12,311**	**12,259**	**12,240**
EQUITY					
Share Capital	896	896	896	896	896
Retained profits	1,402	1,548	1,473	1,534	1,728
Others	276	224	284	294	304
Total equity	**2,575**	**2,668**	**2,653**	**2,724**	**2,928**
Total equity and liabilities	**9,561**	**10,516**	**14,964**	**14,983**	**15,168**

Valuation Ratios

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	22.5	20.5	21.9	20.9	16.9
P/B (x)	5.1	4.9	4.9	4.8	4.4
EV/EBITDA (x)	13.7	12.5	14.9	12.3	10.6
Dividend yield (%)	4.0	4.0	4.3	4.3	4.3
Growth & Margins (%)					
Growth					
Revenue	-9.0%	7.5%	17.4%	7.5%	2.0%
Gross profit	-7.2%	0.5%	10.7%	12.4%	14.9%
EBIT	-18.3%	13.0%	9.1%	12.4%	24.8%
PBT	-23.1%	19.3%	-6.3%	5.9%	23.2%
Margins					
Gross profit margin	21.3%	20.0%	18.8%	19.7%	22.1%
EBIT margin	8.3%	8.8%	8.1%	8.5%	10.4%
Net profit margin	7.3%	7.4%	5.9%	5.8%	7.0%
Key Ratios					
ROE	22.8%	23.6%	22.3%	22.8%	26.1%
ROA	6.0%	6.1%	4.4%	5.3%	6.6%
Net Gearing	51.1%	48.7%	223.6%	211.3%	186.7%

Thai Beverage PLC

Macro boost expected

StocksBnB.com

2 January 2024

SINGAPORE | CONSUMER | UPDATE

- Major THB600bn fiscal stimulus planned in Thailand together with improving tourist arrivals will support consumption expenditure in 2024.
- Spirits volume is expected to recover from front-loading activities a year ago, price increases in November and higher priced brown spirits volume is steadily rising on improving consumer incomes.
- Our BUY recommendation and target price of S$0.67 is maintained. We value the core consumer business at the 3-year average of 16x FY24e earnings. The listed associates are valued at a 20% discount to the current market price.

Background

Listed on the SGX in 2006, ThaiBev is a leading beverage producer in Thailand and one of Asia's largest beverage producers. It has four businesses: spirits, beer, non-alcoholic beverages (NAB) and food. The spirits market share in Thailand is more than 90%. In 2012, ThaiBev acquired Singapore-based Fraser and Neave (F&N) Limited. It followed this up in October 2017 with its 75% purchase of Myanmar's largest whisky operator, Grand Royal Group. In December 2017, ThaiBev bought a 53.59% stake in Saigon Beer-Alcohol-Beverage Corporation (Sabeco), a leading beer producer in Vietnam. In the same month, it completed its acquisition of 252 KFC franchises in Thailand from Yum Restaurants. Spirits accounted for 80% of its FY23 net earnings, with the balance of 9% from F&N/FPL and 9% from beer. Contributions from non-alcoholic beverages and food were not material.

Investment Merits/Outlook

- **Fiscal stimulus to support consumption.** The new government has a planned THB600bn (or 3.5% of GDP) fiscal stimulus for the economy. The largest programme is the THB500bn digital wallet scheme that provides cash handouts of THB10k (S$385) per citizen 16 years and above with a monthly income below THB70k. An estimated 50mn Thais will benefit. The scheme is scheduled to commence in May 2024. We expect the handouts to be supportive of consumption spending together with an improving tourism sector. Other measures to support the economy include waiving visas for China nationals and raising minimum wages.
- **Dominant in Thailand spirits.** ThaiBev continues to maintain a dominant spirits market share in Thailand (white spirits 88%, brown spirits 95%). We see several volume drivers for the spirits business -– (i) White spirit volume should recover from front-loading activities a year ago; (ii) there are price increases underway in November (for smaller SKUs); (iii) higher-priced brown spirits volume is steadily rising on improving consumer incomes.
- **Beer remains challenging.** Beer is facing soft consumer demand in Vietnam due to the weak economic conditions and made worse by five cumulative rounds of price increases since 2021. Volumes in Vietnam are expected to be weak until 1Q25 when the macro environment recovers. In Thailand, the emergence of Carabao as a new beer competitor further raised the pricing and marketing intensity. Carabao recently introduced five varieties of beer with a planned capacity of 400mn litres, or 20% of the current industry capacity of 2,000mn litres.

Recommendation

Maintain BUY with a target price of S$0.67. Our target price is based on a historical 3-year average of 16x PE FY24e.

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.525
FORECAST DIV	SGD 0.023
TARGET PRICE	SGD 0.670
TOTAL RETURN	32.1%

COMPANY DATA

BLOOMBERG CODE	THBEV SP
O/S SHARES (MN) :	25,125
MARKET CAP (USD mn / SGD mn) :	10000 / 13190
52 - WK HI/LO (SGD) :	0.73 / 0.49
3M Average Daily T/O (mn) :	21.78

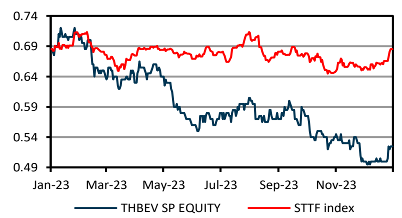
MAJOR SHAREHOLDERS

Siriwana Co Ltd	45.3%
Siriwanan Co Ltd	13.5%
Maxtop Management Corp.	7.1%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	5.0	(8.7)	(20.6)
STTF	5.2	1.0	4.0

PRICE VS STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Sep	FY22	FY23	FY24e	FY25e
Revenue (THB bn)	272.4	279.1	297.1	319.3
EBITDA (THB bn)	46.3	43.9	46.3	49.6
NPAT, adj. (THB bn)	30.1	27.4	29.0	31.8
EPS, adj. (THB)	1.20	1.09	1.15	1.26
EPS, adj. (SCents)	4.66	4.25	4.38	4.81
PER, adj. (x)	11.3	12.4	12.0	10.9
P/BV, (x)	1.6	1.7	1.6	1.5
DPS (THB)	0.60	0.60	0.62	0.63
DPS (SCents)	2.33	2.33	2.37	2.40
Div Yield	4.4%	4.4%	4.5%	4.6%
ROE	16.0%	13.5%	13.9%	14.3%

Source: Company, PSR

Valuation Method

16x PE FY24e + Market cap associates

Paul Chew (+65 6212 1851)
Head of Research
paulchewkl@phillip.com.sg

Financials

Income Statement

Y/E Sep, THB mn	FY21	FY22	FY23	FY24e	FY25e
Revenue	**240,543**	**272,359**	**279,085**	**297,090**	**319,323**
Gross profit	71,484	80,456	82,801	88,254	94,483
EBITDA	**41,613**	**46,344**	**43,910**	**46,275**	**49,582**
Depreciation & Amortisation	-7,831	-7,761	-7,743	-7,932	-8,426
EBIT	**33,782**	**38,583**	**36,167**	**38,343**	**41,156**
Associates & JVs	2,777	5,044	3,465	3,862	4,151
Other items	873	979	1,088	891	958
Net Finance Inc/(Exp)	-5,458	-4,665	-4,311	-4,810	-4,281
Profit Before Tax	**31,973**	**39,941**	**36,410**	**38,286**	**41,985**
Taxation	-4,634	-5,436	-5,682	-5,743	-6,298
Profit After Tax	**27,339**	**34,505**	**30,727**	**32,543**	**35,687**
- Non-controlling interest	2,694	4,399	3,293	3,580	3,926
Net profit, reported	**24,645**	**30,106**	**27,434**	**28,964**	**31,761**
Net profit, adj.	**24,645**	**30,106**	**27,434**	**28,964**	**31,761**

Per share data (THB)

Y/E Sep	FY21	FY22	FY23	FY24e	FY25e
EPS, reported	0.98	1.20	1.09	1.15	1.26
EPS, adj.	0.98	1.20	1.09	1.15	1.26
DPS	0.50	0.60	0.60	0.62	0.63
BVPS	6.81	8.19	8.01	8.54	9.18

Per share data (SGD Cents)

Y/E Sep	FY21	FY22	FY23	FY24e	FY25e
EPS, reported	4.00	4.66	4.25	4.38	4.81
EPS, adj.	4.00	4.66	4.25	4.38	4.81
DPS	2.04	2.33	2.33	2.37	2.40
BVPS	27.78	31.87	31.18	32.48	34.89

Balance Sheet

Y/E Sep, THB mn	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
PPE	**60,717**	**59,176**	**57,528**	**54,646**	**51,648**
Intangibles	195,497	205,830	196,365	196,365	196,365
Investments in Assoc/JV	102,414	112,630	110,601	114,463	118,614
Others	18,691	19,460	20,905	20,905	20,905
Total non-current assets	**377,319**	**397,096**	**385,399**	**386,380**	**387,533**
Accounts receivables	6,201	6,719	7,770	7,249	7,614
Cash	38,293	51,867	45,672	53,259	58,118
Inventories	45,739	46,073	52,084	51,494	55,440
Others	5,033	6,035	3,624	3,624	3,624
Total current assets	**95,266**	**110,693**	**109,150**	**115,625**	**124,796**
Total Assets	**472,585**	**507,789**	**494,549**	**502,005**	**512,330**
LIABILITIES					
Accounts payables	19,943	24,126	23,768	24,321	24,839
Short term loans	69,206	57,122	64,983	56,983	48,983
Others	6,294	7,882	9,331	9,331	9,331
Total current liabilities	**95,442**	**89,129**	**98,082**	**90,635**	**83,153**
Long term loans	151,800	153,017	140,290	140,290	140,290
Others	15,166	16,254	14,655	14,655	14,655
Total non-current liabilities	**166,966**	**169,271**	**154,945**	**154,945**	**154,945**
Total Liabilities	**262,409**	**258,400**	**253,027**	**245,580**	**238,098**
EQUITY					
Non-controlling interests	39,213	43,640	40,200	41,780	43,705
Shareholder Equity	**170,963**	**205,748**	**201,322**	**214,645**	**230,526**

Cash Flow

Y/E Sep, THB mn	FY21	FY22	FY23	FY24e	FY25e
CFO					
EBIT	33,782	38,583	36,167	38,343	41,156
Depreciation & Amortisation	7,831	7,761	7,743	7,932	8,426
WC changes	-4,016	3,502	-7,000	1,664	-3,794
Tax paid	-6,758	-6,227	-6,650	-5,743	-6,298
Others	1,228	1,394	1,711	891	958
Cashflow from ops	32,067	45,013	31,971	43,088	40,449
CFI					
CAPEX, net	-3,455	-3,356	-4,804	-5,051	-5,428
Others	-8,201	-7,116	3,878	1,599	1,864
Cashflow from investments	-11,656	-10,472	-926	-3,452	-3,564
CFF					
Share issuance, net	0	0	0	0	0
Loans, net of repayments	-4,477	-14,466	-15,761	-14,409	-14,145
Dividends	-14,548	-14,674	-18,015	-17,640	-17,881
Others	-1,347	-1,530	-1,571	0	0
Cashflow from financing	-20,372	-30,671	-35,347	-32,049	-32,025
Net change in cash	39	3,870	-4,302	7,587	4,859
Effects of exchange rates	193	-1,049	937	0	0
CCE, end	**15,379**	**18,199**	**14,834**	**22,421**	**27,280**

Source: Company, Phillip Securities Research (Singapore) Estimates

Valuation Ratios

Y/E Sep	FY21	FY22	FY23	FY24e	FY25e
P/E (X), adj.	13.1	11.3	12.4	12.0	10.9
P/B (X)	1.9	1.6	1.7	1.6	1.5
EV/EBITDA (X), adj.	5.3	4.4	4.6	4.0	3.5
Dividend Yield	3.9%	4.4%	4.4%	4.5%	4.6%
Growth & Margins					
Growth					
Revenue	-5.1%	13.2%	2.5%	6.5%	7.5%
EBITDA	1.2%	11.4%	-5.3%	5.4%	7.1%
EBIT	-2.2%	14.2%	-6.3%	6.0%	7.3%
Net profit, adj.	6.0%	22.2%	-8.9%	5.6%	9.7%
Margins					
Gross margin	29.7%	29.5%	29.7%	29.7%	29.6%
EBITDA margin	17.3%	17.0%	15.7%	15.6%	15.5%
EBIT margin	14.0%	14.2%	13.0%	12.9%	12.9%
Net profit margin	10.2%	11.1%	9.8%	9.7%	9.9%
Key Ratios					
ROE	15.7%	16.0%	13.5%	13.9%	14.3%
ROA	5.4%	6.1%	5.5%	5.8%	6.3%
Net Debt/(Cash)	182,713	158,271	159,600	144,014	131,155
Net Gearing	86.9%	63.5%	66.1%	56.2%	47.8%

PhillipCapital

BULL AND BEAR StocksBnB.com

Valuetronics Holdings Ltd

Earnings visibility trading at a huge discount

SINGAPORE | TECHNOLOGY (HARDWARE) | UPDATE

- 1H24 PATMI grew 42% YoY to HKD82.1mn, and above our expectations. Revenue and PATMI were 42%/62% of our FY24e estimates. The revenue decline was due to lower component prices. The company announced a special dividend of HKD4 cents in addition to interim HKD4 cents.
- Earnings growth was driven by (i) gross margin expansion from lower component prices and a weaker renminbi; (ii) an increase in interest income; and (iii) lower operating expenses, especially depreciation.
- We maintain our BUY recommendation with a target price of S$0.70. We peg our target price to the industry valuation at 11x PE. With the current cash hoard of HKD1.14bn (or S$199mn), around 82% of the market capitalisation is net cash. There is visibility of earnings growth over the next two years as Valuetronics' four new customers ramp up production. The company trades at a dividend yield of 5.8% and has an outstanding share buyback plan of approx. 47mn shares.

Background

Valuetronics Holdings Ltd (VALUE) was established in 1992 and listed on SGX Mainboard in 2007. VALUE is an electronics manufacturing services (EMS) provider with 80% of revenue from industrial and commercial electronics (ICE) and 20% from consumer electronics (CE). ICE products include industrial and commercial printers, industrial cold chain temperature monitors, automobile data and media connectivity modules, and IP phones. Meanwhile, consumer products are largely PCBA work on smart lighting, electronic toothbrushes, and shavers. VALUE gross margins of 13% are ahead of the industry's 8% due to the larger contribution of low-volume and high-mix ICE products. VALUE has two manufacturing facilities - 110,000 sqm in Huizhou City, Guangdong, China and a 52,541 sqm plant in Vinh Phuc Province, Vietnam.

Investment Merits/Outlook

- **Multiple headwinds over the past five years.** After a peak in 2018, VALUE suffered a revenue decline of 29% in the past five years. Faced with tariffs of as much as 25%, major US customers had shifted production out of their China factories into Indonesia or Mexico. VALUE then had to spend HK$200mn for a new factory in Vietnam. Subsequent challenges included pandemic-related component shortages, customers exiting the Russian market and business development activities disrupted by travel restrictions. We believe the major headwinds are behind VALUE and the company is poised for growth in the coming years.
- **New plant, new customers.** With the new plant set up in 2022, VALUE has been able to secure four new customers that will contribute to revenue in FY24e and FY25e. Customers are not willing to keep manufacturing solely in China. This is because of higher tariffs in the US, and customers wanting to de-risk due to the escalating geopolitical tensions. The four new customers are for electronic price tags at retail outlets, liquid cooling solutions for gaming computers, electronic souvenirs in entertainment facilities and network access products.
- **Attractive valuations backed by 47mn outstanding share buybacks.** We find VALUE valuations attractive at 9x PE and a net cash balance sheet of HK$1.14bn (S$199mn). In February 2022, VALUE announced an aggressive share buy-back programme worth HK$250mn (S$45mn). The company has since utilized HK$84mn to repurchase shares. 47mn is available for repurchase. The last purchase price was S$0.57 in December.

Recommendation

Maintain BUY with a target price of S$0.70. Our target price is based on industry valuations of 11x PE 1-year forward earnings.

2 January 2024

BUY (Maintained)

CLOSING PRICE	SGD 0.595
FORECAST DIV	SGD 0.035
TARGET PRICE	SGD 0.700
TOTAL RETURN	23.5%

COMPANY DATA

Bloomberg CODE:	VALUE SP
O/S SHARES (MN) :	410.1
MARKET CAP (USD mn / SGD mn) :	185 / 244
52 - WK HI/LO (SGD) :	0.61 / 0.48
3M Average Daily T/O (mn) :	0.76

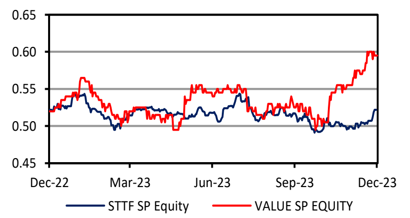
MAJOR SHAREHOLDERS

Tse Chong Hing	18.5%
Chow Kok Kit	7.8%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	7.2	16.2	23.5
STTF RETURN	5.2	1.0	4.0

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar, HKD (mn)	FY22	FY23	FY24e	FY25e
Revenue	2,027	2,014	1,874	1,978
EBITDA	173.3	155.9	184.4	200.9
Net Profit	113.5	123.0	151.6	163.8
EPS (SGD cents)	4.6	5.1	6.4	6.9
P/E (X)	13.0	11.7	9.3	8.7
Dividend Yield	4.1%	5.9%	5.8%	5.6%
ROE	8.4%	9.0%	10.9%	11.3%
ROA	5.2%	5.9%	7.2%	7.5%

Source: Company, PSR

VALUATION METHOD

11x PE Multiple FY24e

Paul Chew (+65 6212 1851)
Head of Research
paulchewkl@phillip.com.sg

Financials

Income Statement

Y/E Mar, HKD mn	FY21	FY22	FY23	FY24e	FY25e
Revenue	**2,281.5**	**2,027.4**	**2,013.7**	**1,874.3**	**1,978.0**
Gross profit	386.2	274.8	261.7	286.8	306.6
EBITDA	**248.6**	**173.3**	**155.9**	**184.4**	**200.9**
Depreciation & amortisation	(54.1)	(58.0)	(53.4)	(57.1)	(59.8)
EBIT	**190.9**	**111.6**	**100.9**	**125.7**	**139.4**
Net Finance Inc/(Exp)	5.0	1.7	20.7	39.9	39.5
Profit before tax	208.7	125.7	132.4	167.6	181.0
Taxation	(21.6)	(12.2)	(9.4)	(15.9)	(17.2)
Minority intrest	-	-	-	-	-
PATMI	**187.1**	**113.5**	**123.0**	**151.6**	**163.8**

Per share data (SGD Cents)

Y/E Mar	FY21	FY22	FY23	FY24e	FY25e
EPS, Reported	7.5	4.6	5.1	6.4	6.9
DPS	3.7	2.5	3.5	3.5	3.3
BVPS	54.3	55.1	56.5	59.4	62.4

Cash Flow

Y/E Mar, HKD mn	FY21	FY22	FY23	FY24e	FY25e
<u>CFO</u>					
Profit before tax	**208.7**	**125.7**	**132.4**	**167.6**	**181.0**
Adjustments	57.8	60.4	34.3	59.2	61.8
WC changes	(38.7)	(175.1)	36.3	49.6	(21.3)
Cash generated from ops	227.7	11.0	203.0	276.4	221.5
Tax paid	(14.5)	(22.0)	(4.8)	(15.4)	(16.8)
Cashflow from ops	**213.2**	**(10.9)**	**198.2**	**261.0**	**204.7**
<u>CFI</u>					
CAPEX, net	(94.6)	(92.3)	(34.6)	(30.0)	(30.0)
Others	43.6	7.0	23.8	-	-
Cashflow from investments	**(51.1)**	**(85.2)**	**(10.8)**	**(30.0)**	**(30.0)**
<u>CFF</u>					
Share issuance, net	1.9	(11.1)	(53.4)	-	-
Loans, net of repayments	-	-	-	-	-
Dividends	(82.7)	(87.1)	(59.4)	(99.4)	(91.1)
Others	(1.3)	-	-	-	-
Cashflow from financing	**(82.1)**	**(98.2)**	**(112.8)**	**(99.4)**	**(91.1)**
Net change in cash	80.1	(194.4)	74.5	131.6	83.6
CCE, end	**375.7**	**183.0**	**1,009.9**	**1,140.6**	**1,223.4**

Balance Sheet

Y/E Mar, HKD mn	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
Trade and other receivables	490.5	430.7	463.8	412.3	435.2
Cash	1,129.4	936.7	1,009.9	1,140.6	1,223.4
Inventories	214.1	273.5	203.6	206.2	217.6
Others	0.0	0.0	0.0	0.0	0.0
Total current assets	**1,864.7**	**1,686.2**	**1,706.7**	**1,788.4**	**1,905.5**
PPE	201.1	288.1	318.3	286.0	258.9
Others	0.2	0.1	0.1	0.1	0.1
Total non-current assets	**376.9**	**409.5**	**369.2**	**340.4**	**309.0**
Total Assets	**2,241.6**	**2,095.7**	**2,075.9**	**2,128.9**	**2,214.5**
LIABILTIES					
Accounts payable	365.2	262.7	233.6	234.3	247.2
Bank borrowings	-	1.0	2.0	3.0	4.0
Other payables	446.2	386.0	397.7	397.7	397.7
Others	0.1	0.1	0.1	0.1	0.1
Total current liabilities	**889.4**	**724.1**	**713.4**	**714.2**	**727.1**
Deferred tax liabilities	5.1	3.0	0.5	0.5	0.5
Long-term borrowings	-	1.0	2.0	3.0	4.0
Others	-	-	-	-	-
Total non-current liabilities	**5.1**	**3.0**	**0.5**	**0.5**	**0.5**
Total Liabilities	**894.5**	**727.1**	**713.9**	**714.6**	**727.6**
Equity					
Share capital	43.6	43.6	43.6	43.6	43.6
Shareholder Equity	**1,347.1**	**1,368.6**	**1,362.0**	**1,414.2**	**1,486.9**

Valuation Ratios

Y/E Mar	FY21	FY22	FY23	FY24e	FY25e
P/E (X)	7.9	13.0	11.7	9.3	8.7
P/B (X)	1.1	1.1	1.1	1.0	1.0
EV/EBITDA (X)	1.4	3.1	2.7	1.5	1.0
Dividend Yield	6.2%	4.1%	5.9%	5.8%	5.6%
Growth & Margins					
<u>**Growth**</u>					
Revenue	-3.1%	-11.1%	-0.7%	-6.9%	5.5%
EBITDA	11.2%	-30.3%	-10.0%	18.3%	8.9%
EBIT	10.8%	-41.6%	-9.6%	24.6%	11.0%
Net profit, adj.	4.6%	-39.3%	8.3%	23.3%	8.0%
<u>**Margins**</u>					
Gross margin	16.9%	13.6%	13.0%	15.3%	15.5%
EBITDA margin	10.9%	8.5%	7.7%	9.8%	10.2%
EBIT margin	8.4%	5.5%	5.0%	6.7%	7.1%
Net profit margin	8.2%	5.6%	6.1%	8.1%	8.3%
Key Ratios					
ROE	14.5%	8.4%	9.0%	10.9%	11.3%
ROA	8.8%	5.2%	5.9%	7.2%	7.5%
Net Gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Net Debt/EBITDA (X)	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Company, Phillip Securities Research (Singapore) Estimates

PhillipCapital

CapitaLand Investment Limited

Stable recurring income streams to drive growth

StocksBnB.com

SINGAPORE | REAL ESTATE | UPDATE

- Fee-related revenue is on the rise, driven by a 31% YoY increase in lodging management fees and a 9% YoY growth in recurring fund management fees for 9M23. However, this is offset by a significant decrease of 64% in event-driven fees. Including embedded funds under management (FUM) of S$10bn that is pending deployment, CLI has reached its 2024 FUM target of S$100bn. Total recurring income for 9M23 grew by 9% YoY.
- Fears stemming from the recent FY23 profit warning may be overblown as the fair value losses expected on its portfolio of investment properties is non-cash in nature, and CLI's core operating earnings are likely to have not been significantly impacted.
- Maintain BUY with an unchanged target price of S$3.68. Our SOTP-derived target price represents an upside of 20.1% and a forward P/E of 18x. We like CLI for its robust recurring fee income stream and asset-light model. We expect the lodging business to continue to improve with higher RevPAU and more lodging units turning operational.

Background

CapitaLand Investment (CLI) was listed on SGX-ST on 20 September 2021, after a successful demerger from the development business of CapitaLand Limited ("CapitaLand" or the "Parent Group"). This transformative transaction created one of Asia's leading listed real estate investment managers (REIM) and one of the largest REIMs in the world. CLI's two key business platforms are supported by three synergistic growth drivers: Fund Management, Lodging Management and Capital Management. The Fee-Income Related Business (FRB) comprises Listed Funds Management, Private Funds Management and Lodging Management. Together, they provide a steadily growing, recurring fee-based revenue stream. The Real Estate Investment Business (REIB) generates a stable flow of rental income from our global portfolio of commercial and lodging assets and is also a source of assets for CLI's managed investment vehicles.

Investments Merits/Outlook

- **Lodging segment continues to perform exceptionally well.** 3Q23 RevPAU improved 15% YoY, attributed to higher occupancy (+7ppts) and ADRs (+3%). Overall RevPAU stood at 107% of pre-COVID 3Q19 levels. The improvement in operating performance coupled with 6,200 units (3.8% of signed units) turning operational resulted in a 31% YoY growth in lodging management fees. CLI has >20 properties to be opened in 4Q23, and it has a target to reach S$500mn in lodging management fees within five years. We expect RevPAR growth to continue in 2024 but slow from the higher base in 2023.

- **Recurring fund management continues to improve.** It grew 9% YoY to S$272mn in 9M23. This alleviates the impact of lower event-driven fees (-64% YoY) in a market that is less conducive to deal-making. CLI has c.S$10bn in embedded FUM that could lift fee income if deployed; it has a current FUM of S$90bn (FY22: S$88bn).

- **The potential Fed pivot in 2024 could drive capital recycling activities and event-driven fee-related income.** With expectations of interest rate cuts in 2H24, we think event-driven fee-related income should improve in 2024. Also, deployment of capital under embedded FUM remains slow, but it should pick up in 2024 when interest rate stabilises and starts to drop. CLI is actively looking at strong growth opportunities in SE Asia and India to deploy capital.

Recommendation

Maintain BUY with an unchanged SOTP-derived target price of S$3.68.

2 January 2024

BUY (Maintained)

LAST DONE PRICE	SGD 3.16
FORECAST DIV	SGD 0.12
TARGET PRICE	SGD 3.68
TOTAL RETURN	20.1%

COMPANY DATA

BLOOMBERG CODE:	CLI SP Equity
O/S SHARES (MN) :	5,100
MARKET CAP (USD mn / SGD mn) :	12219 / 16117
52 - WK HI/LO (SGD) :	3.97 / 2.83
3M Average Daily T/O (mn) :	8.02

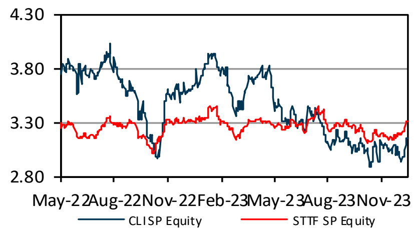
MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS PTE LTD	57.2%
VANGUARD GROUP	2.1%
BLACKROCK INC	2.0%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	4.3	1.9	(10.4)
STTF RETURN	5.2	1.0	4.0

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD mn	FY21	FY22	FY23e	FY24e
Revenue	2,293	2,876	3,038	3,339
Gross Profit	1,058	1,290	1,397	1,536
EBIT	1,068	1,435	1,610	1,676
EPS (SGD)	38.35	16.79	20.10	21.06
P/E (x)	8.2	18.8	15.7	15.0
P/BV (x)	0.69	1.07	1.04	1.01
DPS (cents)	15.0	17.90	12.00	12.00
Div Yield, %	-	5.7%	3.8%	3.8%
ROE, %	8.4%	5.7%	6.6%	6.7%

Source: Company Data, Bloomberg

Valuation Method
SOTP

Darren Chan (+65 6212 1878)
Senior Research Analyst
darrenchanrx@phillip.com.sg

Financials

Income Statement

Y/E Dec, SGD mn	FY20	FY21	FY22	FY23e	FY24e
Revenue	**1,983**	**2,293**	**2,876**	**3,038**	**3,339**
Gross profit	**872**	**1,058**	**1,290**	**1,397**	**1,536**
Operating inc./exp	(1,094)	10	145	212	140
Gross operating profit	**(222)**	**1,068**	**1,435**	**1,610**	**1,676**
Finance cost	(377)	(353)	(432)	(491)	(504)
Share of results from:					
- Associates	81	1,008	425	472	494
- Joint ventures	(106)	210	106	133	143
(Loss)/Profit before tax	**(559)**	**1,956**	**1,388**	**1,588**	**1,663**
Tax expense	(114)	(396)	(318)	(364)	(381)
(Loss)/Profit for the year	(673)	1,560	1,070	1,224	1,282
Attributed to:					
Owners of the company	**(559)**	**1,349**	**861**	**1,031**	**1,080**
Non-controlling interests	(114)	211	209	193	202

Per share data (SGD)

Y/E Dec, SGD cents	FY20	FY21	FY22	FY23e	FY24e
EPS	(19.91)	38.35	16.79	20.10	21.06
DPS		15.00	17.90	12	12
BVPS	4.23	4.56	2.95	3.03	3.12

Cash Flows

Y/E Dec, SGD mn	FY20	FY21	FY22	FY23e	FY24e
CFO					
(Loss)/Profit for the year	**(673)**	**1,560**	**1,070**	**1,224**	**1,282**
Adjustments	1,428	(941)	(119)	386	394
WC changes	(429)	255	(21)	(89)	291
Cash generated from ops	326	874	930	1,521	1,968
Taxes paid, others	(143)	(207)	(195)	(583)	(364)
Cashflow from ops	**183**	**667**	**735**	**938**	**1,604**
CFI					
CAPEX	(236)	(1,242)	(1,009)	(458)	(467)
Dividends from associtates & JV	502	1,980	348	348	348
Proceeds from disposal of IP	385	1,354	15	-	-
Cashflow from investments	**1,068**	**1,268**	**(382)**	**(110)**	**(119)**
CFF					
Dividends paid	(849)	(117)	(958)	(616)	(616)
Interest expense paid	(365)	(342)	(418)	(419)	(420)
Net cash from borrowings/debt securities	172	750	105	-	-
Cashflow from financing	**(972)**	**223**	**(1,370)**	**(1,035)**	**(1,036)**
Net change in cash	279	2,158	(1,017)	(206)	450
Effects of exchange rates	42	(21)	(145)	-	-
Cash & equivalents at end of year	**1,678**	**3,815**	**2,624**	**2,372**	**2,720**

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGD mn	FY20	FY21	FY22	FY23e	FY24e
ASSETS					
PPE	1,096	1,067	1,225	1,178	1,122
Associates & JVs	13,198	13,248	13,152	13,428	13,734
Investment Properties	15,852	16,249	14,706	15,074	15,450
Others	1,834	1,260	1,606	1,606	1,606
Total non-current assets	**31,980**	**31,824**	**30,689**	**31,286**	**31,913**
Accounts Receivables	4,258	1,661	1,025	972	1,223
Cash balance	1,736	3,877	2,668	2,372	2,720
Others	249	284	728	728	728
Total current assets	**6,243**	**5,822**	**4,421**	**4,072**	**4,671**
Total Assets	**38,223**	**37,646**	**35,110**	**35,358**	**36,584**
LIABILITIES					
Short term borrowings	1,132	1,941	1,208	1,208	1,208
Accounts Payables	5,513	2,128	2,093	1,952	2,494
Others	492	1,547	861	642	659
Total current liabilities	**7,137**	**5,616**	**4,162**	**3,801**	**4,361**
Long term borrowings	6,049	10,428	9,880	9,880	9,880
Others	9,303	1,501	2,139	2,139	2,139
Total non-current liabilities	**15,352**	**11,929**	**12,019**	**12,019**	**12,019**
Total Liabilities	**22,489**	**17,545**	**16,181**	**15,820**	**16,380**
EQUITY					
Shareholder Equity	**11,875**	**16,044**	**15,133**	**15,548**	**16,013**
Perpetual Securities	396	396	396	396	396
Non-controlling interest	3,463	3,661	3,400	3,593	3,795
Total Equity	**15,734**	**20,101**	**18,929**	**19,538**	**20,204**

Valuation Ratios

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
P/E	-15.9	8.2	18.8	15.7	15.0
P/B	0.75	0.69	1.07	1.04	1.01
Dividend Yield			5.7%	3.8%	3.8%
Growth & Margins					
Growth					
Revenue		15.6%	25.4%	5.6%	9.9%
EBIT		n.m.	34.4%	12.2%	4.1%
Net Income, adj.		n.m.	-31.4%	14.4%	4.8%
Margins					
EBIT margin	-11.2%	46.6%	49.9%	53.0%	50.2%
Net Profit Margin	-33.9%	68.0%	37.2%	40.3%	38.4%
Key Ratios					
ROE	-4.7%	8.4%	5.7%	6.6%	6.7%
ROA	-1.8%	4.1%	3.0%	3.5%	3.5%
Debt/Equity	0.43	0.48	0.52	0.52	0.49

ComfortDelGro Corp Ltd

Repricing to support earnings

StocksBnB.com

SINGAPORE | TRANSPORT SERVICES | UPDATE

- Earnings recovery is underway. 3Q23 normalised PATMI jumped 48% YoY to S$48mn.
- Earnings growth was driven by a turnaround in the UK bus and growth in Singapore taxi operations. UK benefited from higher pricing through contract inflation indexation and renewal. Singapore enjoyed lower taxi rebates and higher taxi commissions.
- We maintain our BUY recommendation with DCF target price of S$1.57. We expect earnings growth to maintain in the coming quarters. The two largest drivers of earning will be higher bus service fees in the UK, higher booking commission rates, lower taxi rent rebates and new taxi platform fees in Singapore, and lagged pricing of rail services in Singapore.

Background

ComfortDelGro is a global multi-modal land transport operator. Its major businesses are rail, buses, taxis, automotive engineering, and inspection and testing. ComfortDelGro operates in seven countries with a fleet size of 30,500 vehicles (buses, taxis and cars). Around half the fleet or 15,423 are in Singapore. The 2nd largest is in China with 7,992. Beijing operates 3,596 taxis with 8.3% market share. Its 75%-owned listed subsidiary, SBS Transit Ltd, operates rail services and buses in Singapore. Its 67%-owned listed subsidiary, VICOM Ltd, provides inspection and testing services. ComfortDelgro has around 62% share of Singapore's taxi and bus markets and 74% share of vehicle inspection and testing. In London, its bus market share is 17%.

Investment Merits/Outlook

- **After tumultuous 2022, a turnaround in UK.** UK suffered record operating losses of S$10.4mn in 2022. The surge in inflation and shortage of bus drivers required Comfort to absorb huge amounts of additional costs. These costs are gradually being passed on to the consumer via annual indexation of prices to the CPI. For the 9M23, around 70% of the bus contracts have been indexed to higher prices. Operating profit in the UK has turned around from a S$2mn loss to a S$6.1mn profit in 9M23. Another positive has been the re-contract of bus contracts that typically have a five-year tenure. Due to inflation and losses, competitors have either exited or bid more rationally. Contract margins are possibly rising from their low single digits to mid-teens. We believe less than 10% of the contracts have been re-contracted. There will be a medium-term uplift in margins.
- **Cash piling up and returning to shareholders.** Comfort continues to generate healthy free cash flows (FCF). 1H23 FCF was S$86.4mn (1H22: S$88.5mn), pilling up the net cash to S$565mn. Capital expenditure is now trending at S$350mn p.a. compared to pre-pandemic S$450-500mn. Comfort has raised its minimum dividend payout ratio from 50% to 70%.
- **Taxi earnings were strong but not Singapore bus.** 9M23 taxi operating profits jumped 55% YoY to S$71mn. Stable taxi fleet, lower rental rebates and introduction of platform fees supported earnings. The outlook for Singapore taxis is positive as pricing power returns. FY24e will benefit from higher booking commission rates, lower taxi rent rebates and new taxi platform fees. We estimate Singapore bus earnings to be down 25% YoY in 1H23 due to the new re-contracting price announced late last year. Meanwhile, Singapore rail swung from losses to a marginal net profit of an estimated S$1mn.

Recommendation

Maintain BUY and a DCF (WACC 9.2%) target price of S$1.57. ComfortDelgro pays a 4% dividend yield and has a net cash balance sheet of S$500mn.

2 January 2024

BUY (Maintained)

LAST CLOSE PRICE	SGD 1.40
FORECAST DIV	SGD 0.0609
TARGET PRICE	SGD 1.57
TOTAL RETURN	16.5%

COMPANY DATA

BLOOMBERG CODE:	CD SP
O/S SHARES (MN) :	2,166
MARKET CAP (SGD mn) :	3,032
52 - WK HI/LO (SGD) :	1.41 / 1.01
3M Average Daily T/O (mn) :	6.0

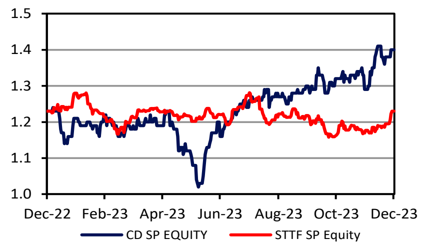
MAJOR SHAREHOLDERS

Ameriprise Financial Inc	5.3%
Invesco	3.3%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	8.5	7.7	20.6
STTF	5.2	1.0	4.0

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 21	FY 22	FY 23e	FY 24e
Revenue (S$ mn)	3,503	3,781	3,943	4,086
PATMI, adj (S$ mn)	146.8	154.8	164.9	167.4
EPS, adj. (cents)	7.2	5.4	7.6	7.7
P/E, adj. (x)	19.6	26.1	18.4	18.1
BVPS (cents)	144	139	139	140
P/B (x)	1.0	1.0	1.0	1.0
DPS (cents)	4.2	8.5	6.1	6.2
Div. Yield (%)	3.0	6.1	4.3	4.4

Source: Bloomberg, PSR

VALUATION METHOD

DCF (WACC: 9.2%; Terminal g: 1.0%)

Paul Chew (+65 6212 1851)
Head Of Research
paulchewkl@phillip.com.sg

Financials

Income Statement

SGD mn, Y/E Dec	FY 20	FY 21	FY 22	FY 23e	FY 24e
Revenue	**3,242.6**	**3,502.8**	**3,780.8**	**3,942.5**	**4,086.2**
EBITDA	**553.7**	**576.1**	**627.2**	**590.7**	**586.4**
Depreciation & Amortisation	(432.0)	(376.3)	(357.2)	(347.5)	(338.8)
EBIT	**121.7**	**199.8**	**270.0**	**243.2**	**247.5**
Net Finance (Expense)/Inc	(5.9)	(5.1)	1.9	3.0	2.3
Profit Before Tax	**115.8**	**194.8**	**272.7**	**246.2**	**249.8**
Taxation	(24.5)	(41.8)	(54.2)	(44.3)	(45.0)
Profit After Tax	**91.3**	**153.0**	**218.5**	**201.9**	**204.8**
Non-controlling interest	30.9	29.9	45.4	36.9	37.5
PATMI, reported	**60.4**	**123.1**	**173.1**	**164.9**	**167.4**
PATMI, adj.	**119.9**	**146.8**	**154.8**	**164.9**	**167.4**

Per share data (cents)

	FY 20	FY 21	FY 22	FY 23e	FY 24e
EPS, reported	2.8	6.0	6.0	7.6	7.7
EPS, adj.	5.6	7.2	5.4	7.6	7.7
DPS	1.4	4.2	8.5	6.1	6.2
BVPS	142	144	139	139	140

Cash Flow

SGD mn, Y/E Dec	FY 20	FY 21	FY 22	FY 23e	FY 24e
CFO					
PBT	115.8	194.8	272.7	246.2	249.8
Adjustments	-	-	-	-	-
WC changes	(28.5)	106.1	59.0	(168.9)	6.1
Cash generated from ops	632.2	727.9	682.2	421.8	592.4
Others	(87.9)	(71.3)	(79.9)	(44.3)	(45.0)
Cashflow from ops	544.3	656.6	602.3	377.5	547.5
CFI					
CAPEX, net	(106.1)	(189.9)	(222.3)	(266.8)	(320.1)
Divd from associates & JVs	0.4	0.1	-	-	-
Others	(4.0)	(9.6)	(28.7)	10.0	9.3
Cashflow from investments	(109.7)	(199.4)	(251.0)	(256.8)	(310.8)
CFF					
Share issuance, net	1.1	2.3	-	-	-
Loans, net of repayments	(116.6)	(143.9)	(50.1)	-	-
Dividends	(144.4)	(107.4)	(171.3)	(184.8)	(177.5)
Others	(41.9)	(38.2)	(53.3)	(7.0)	(7.0)
Cashflow from financing	(301.8)	(287.2)	(274.7)	(191.8)	(184.5)
Effects of exchange rates	15.8	6.4	(28.7)	-	-
Net increase (decrease) in CCE	148.6	176.4	47.9	(71.1)	52.2
CCE, end	742.8	919.2	967.1	896.0	948.1

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

SGD mn, Y/E Dec	FY 20	FY 21	FY 22	FY 23e	FY 24e
ASSETS					
Cash	742.8	919.1	967.0	896.0	948.1
Accounts Receivables	291.8	569.8	550.0	574.0	576.0
Inventories	127.9	116.9	120.1	129.8	124.2
Prepayments	241.6	-	-	-	-
Others	**20.1**	**14.8**	**7.6**	**7.6**	**7.6**
Total current assets	**1,424.2**	**1,620.6**	**1,644.7**	**1,607.4**	**1,655.9**
PPE	2,604.1	2,191.9	2,038.4	1,957.7	1,939.0
Intangibles	870.0	866.9	816.3	816.3	816.3
Receivables	6.7	176.4	142.6	142.6	142.6
Others	53.6	58.6	58.8	58.8	58.8
Total non-current assets	**3,534.4**	**3,293.8**	**3,056.1**	**2,975.4**	**2,956.7**
Total Assets	**4,958.6**	**4,914.4**	**4,700.8**	**4,582.7**	**4,612.6**
LIABILITIES					
Short term loans	110.3	23.9	26.8	26.8	26.8
Accounts Payables	675.0	775.6	832.2	697.0	699.5
Others	227.2	190.6	181.8	181.8	181.8
Total current liabilities	**1,012.5**	**990.1**	**1,040.8**	**905.6**	**908.1**
Long term loans	353.4	317.1	265.4	265.4	265.4
Others	524.0	498.8	395.2	395.2	395.2
Total non-current liabilities	877.4	815.9	660.6	660.6	660.6
Total Liabilities	**1,889.9**	**1,806.0**	**1,701.4**	**1,566.2**	**1,568.7**
EQUITY					
Non-controlling interest	422.0	429.8	430.5	467.4	504.9
Shareholder Equity	**2,646.7**	**2,678.6**	**2,568.9**	**2,549.0**	**2,538.9**

Valuation Ratios

	FY 20	FY 21	FY 22	FY 23e	FY 24e
P/E (x), adj.	25.1	19.6	26.1	18.4	18.1
P/B (x)	1.0	1.0	1.0	1.0	1.0
Dividend Yield	1.0%	3.0%	6.1%	4.3%	4.4%
Growth & Margins					
Growth					
Revenue	-16.9%	8.0%	7.9%	4.3%	3.6%
EBITDA	-34.2%	4.0%	8.9%	-5.8%	-0.7%
EBIT	-70.7%	64.2%	35.1%	-9.9%	1.8%
Net Income, adj.	-58.3%	22.4%	5.4%	6.6%	1.5%
Margins					
EBITDA margin	17.1%	16.4%	16.6%	15.0%	14.3%
EBIT margin	3.8%	5.7%	7.1%	6.2%	6.1%
PBT margin	3.6%	5.6%	7.2%	6.2%	6.1%
Net Profit Margin	3.7%	4.2%	4.1%	4.2%	4.1%
Key Ratios					
ROE	4.6%	5.5%	5.9%	6.4%	6.6%
ROA	2.3%	3.0%	3.2%	3.6%	3.6%
Dividend Payout	25.6%	58.7%	158.0%	80.0%	80.0%
Net Debt or (Net Cash)	-279	-578	-675	-604	-656
Net Gearing (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

PhillipCapital

BULL AND BEAR StocksBnB.com

Singapore Telecommunications Ltd

A new dawn

SINGAPORE | TELECOMMUNICATIONS | UPDATE

- Higher mobile prices are evident in multiple countries including India, Australia, Thailand and Indonesia. A surge in operating costs plus consolidation is driving mobile price repair. Another growth driver in the consumer segment is the increased penetration of broadband services.
- Singtel is undertaking aggressive steps to restructure its operations: i) a 3-year programme to remove S$600mn (of S$200mn p.a. FY24-26) of indirect costs; ii) planned S$4bn of assets to be monetised in the near term; iii) re-organising the group and resources into growth sectors namely IT services under NCS and digital infrastructure.
- We maintain our BUY recommendation with an unchanged target price of S$2.80. Our SOTP valuation is based on 6x EV/EBITDA (in line with peer valuation) for Singtel's core Singapore and Australia businesses, at S$0.90/share. Associates are marked to market at S$1.90/share after a 20% discount to reflect volatility in their share prices.

Background

Singtel is the largest mobile network operator in Singapore and a leading telecommunication company in the region. Singtel provides a diverse range of services including fixed, mobile, internet, television, data centre, info-communications technology and digital solutions. The group consists of subsidiaries Singtel Singapore, Optus, NCS and Digital InfraCo. Optus is the 2nd largest telecommunications company in Australia. Singtel is also invested in leading mobile operators in the region such as 29.2% stake in Bharti Airtel (India, South Asia & Africa), 30.1% in Telkomsel (Indonesia), 46.7% in Globe Telecom (Philippines) and 23.3% in Advanced Info Service (Thailand).

Investment Merits/Outlook

- **Operationally healthier.** Mobile prices are rising in multiple countries. Leading the increase are India, Indonesia, Thailand and Australia. The two main triggers have been rising costs and consolidation. Despite competition from 40 MVNOs in Australia, mobile prices are recovering due to the jump in operating costs, especially in energy and wages. The strength of the price increase depends on economic conditions. In India, pricing has been healthier due to customers upgrading to smartphones and postpaid plans and entry price plans being raised. In other countries where consumers are facing inflationary pressures, prices have been slower to increase. Broadband is an emerging growth segment due to the low penetration rates in India (10%) and Indonesia (17%).
- **Aggressive restructuring.** The new management team in Singtel since 2021 is undertaking aggressive steps to realign the cost structure (especially at Optus) and deploy more resources into new growth areas. Some of the plans announced include a S$600mn cost-cutting programme, closing or divesting unprofitable entities Hooq (Mar20), Amobee (Jul22) and Trustwave (Oct23), re-channelling resources into IT services (NCS), and digital infrastructure (data centres, submarine cables); and S$4bn of assets to be monetized.
- **Returning more cash to shareholders.** In 1H24, the interim dividend grew 13% to 5.2 cents. Singtel also revised higher its payout ratio from 60-80% to 70-90%. Assets monetized will be redeployed into growth initiatives and special dividends.

Recommendation

Our SOTP valuation is based on 6x EV/EBITDA (in line with peer valuation) for Singtel's core Singapore and Australia businesses, at S$0.90/share. Associates are marked to market at S$1.90/share after a 20% discount to reflect volatility in their share prices.

2 January 2024

BUY (Maintained)

CLOSING PRICE	SGD 2.470
FORECAST DIV	SGD 0.107
TARGET PRICE	SGD 2.800
TOTAL RETURN	17.7%

COMPANY DATA

BLOOMBERG CODE:	ST SP
O/S SHARES (MN) :	16,503
MARKET CAP (USD mn / SGD mn) :	30905 / 40763
52 - WK HI/LO (SGD) :	2.65 / 2.25
3M Average Daily T/O (mn) :	21.67

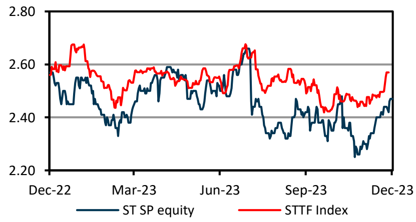
MAJOR SHAREHOLDERS

Temasek Holdings Pte Ltd	52.0%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	6.9	4.3	1.4
STTF	5.2	1.0	4.0

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar, SGDbn	FY22	FY23	FY24e	FY25e
Revenue	15.34	14.62	14.58	15.04
EBITDA	3.77	3.69	3.65	3.82
Net Profit	1.92	2.05	2.17	2.46
DPS (cents)	9.3	14.9	10.7	11.0
EPS-adj. (cents)	11.6	12.4	13.1	14.9
P/E (X)-adj.	21.3	19.9	18.9	16.6
Dividend Yield	3.8%	6.0%	4.3%	4.5%
ROE	7.0%	7.6%	8.1%	8.9%
ROA	4.0%	4.3%	4.7%	5.3%

Source: Company, PSR

VALUATION METHOD

Sum Of Parts - 6x EV/EBITDA; 20% disc. on assoc.

Paul Chew (+65 6212 1851)
Head Of Research
paulchewkl@phillip.com.sg

Financials

Income Statement

Y/E Mar, SGD 'Mn	FY21	FY22	FY23	FY24e	FY25e
Revenue	**15,644**	**15,339**	**14,624**	**14,583**	**15,041**
Operating Profit	3,690	3,614	3,491	3,496	3,645
EBITDA	**3,832**	**3,767**	**3,686**	**3,646**	**3,825**
Depreciation & Amortisation	(2,685)	(2,723)	(2,574)	(2,557)	(2,557)
EBIT	**1,147**	**1,045**	**1,112**	**1,089**	**1,268**
Net Finance Inc/(Exp)	(398)	(404)	(416)	(405)	(386)
Associates	607	1,653	1,827	1,874	2,092
Profit before tax	754	2,621	2,598	3,794	3,019
Taxation	(194)	(662)	(365)	(417)	(543)
Non-controlling interest	(6)	(11)	(8)	(17)	(12)
Net profit, reported	**554**	**1,949**	**2,225**	**3,360**	**2,463**
Exceptional	(1,179)	25	172	1,192	-
Net profit, adjusted	**1,733**	**1,924**	**2,053**	**2,168**	**2,463**

Balance Sheet

Y/E Mar, SGD 'Mn	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
Accounts receivables	5,444	5,245	5,013	4,812	4,964
Cash	755	2,130	1,668	1,454	1,310
Inventories	272	270	346	292	301
Others	62	485	1,556	1,556	1,556
Total current assets	**6,532**	**8,130**	**8,583**	**8,114**	**8,131**
PPE & IA	24,663	22,870	21,374	21,317	21,060
Others	16,803	18,131	16,573	17,180	17,804
Total non-current assets	**41,466**	**41,001**	**37,947**	**38,497**	**38,864**
Total Assets	**47,998**	**49,131**	**46,530**	**46,611**	**46,995**
LIABILITIES					
Accounts payables	5,977	5,596	5,310	4,666	4,813
Short term loans	1,880	1,841	1,202	1,202	1,202
Tax payable	268	769	731	731	731
Total current liabilities	**9,137**	**9,055**	**8,299**	**7,656**	**7,802**
Long term loans	10,826	10,254	9,911	9,411	8,911
Deferred tax liabilites	499	499	543	543	543
Others	1,026	1,213	1,764	1,764	1,764
Total non-current liabilities	**12,350**	**11,967**	**12,217**	**11,717**	**11,217**
Total Liabilities	**21,487**	**21,022**	**20,516**	**19,372**	**19,019**
EQUITY					
Non-controlling interests	26	(15)	9	26	39
Shareholder Equity	**26,486**	**28,124**	**26,005**	**27,212**	**27,937**

Per share data (SGD Cents)

Y/E Mar	FY21	FY22	FY23	FY24e	FY25e
EPS, reported	3.4	11.8	13.4	20.3	14.9
EPS, adjusted	10.6	11.6	12.4	13.1	14.9
DPS	7.5	9.3	14.9	10.7	11.0
BVPS	161.9	169.9	157.1	164.4	168.7

Cash Flow

Y/E Mar, SGD 'Mn	FY21	FY22	FY23	FY24e	FY25e
CFO					
Profit before tax	**754**	**2,621**	**2,598**	**3,794**	**3,019**
Adjustments	3,002	1,136	1,048	1,045	805
WC changes	584	270	(70)	(388)	(14)
Cash generated from ops	4,340	4,027	3,576	4,450	3,811
Tax paid	(164)	(352)	(347)	(417)	(543)
Cashflow from ops	**5,609**	**5,298**	**4,776**	**5,300**	**4,736**
CFI					
CAPEX & IA, net	(2,214)	(2,217)	(2,162)	(2,500)	(2,300)
Others	(238)	1,850	(21)	44	45
Cashflow from investments	**(2,666)**	**(644)**	**(2,302)**	**(2,456)**	**(2,255)**
CFF					
Share issuance, net	-	-	-	-	-
Loans, net of repayments	(1,067)	(1,650)	542	(500)	(500)
Dividends	(1,273)	(1,139)	(1,964)	(2,152)	(1,738)
Others	(850)	(477)	(1,519)	(405)	(386)
Cashflow from financing	**(3,190)**	**(3,266)**	**(2,941)**	**(3,058)**	**(2,624)**
Net change in cash	(247)	1,387	(467)	(214)	(144)
CCE, end	**741**	**2,149**	**1,644**	**1,430**	**1,287**

Source: Company, Phillip Securities Research (Singapore) Estimates

Valuation Ratios

Y/E Mar	FY21	FY22	FY23	FY24e	FY25e
P/E (X)-adj.	23.3	21.3	19.9	18.9	16.6
P/B (X)	1.5	1.5	1.6	1.5	1.5
EV/EBITDA (X)	13.7	13.3	13.5	13.6	12.9
Growth & Margins					
Growth					
Revenue	-5.4%	-1.9%	-4.7%	-0.3%	3.1%
EBITDA	-15.6%	-1.7%	-2.2%	-1.1%	4.9%
EBIT	-41.5%	-8.9%	6.4%	-2.0%	16.4%
Net profit, adj.	-29.5%	11.0%	6.7%	5.6%	13.7%
Margins					
Gross margin	23.6%	23.6%	23.9%	24.0%	24.2%
EBITDA margin	24.5%	24.6%	25.2%	25.0%	25.4%
EBIT margin	7.3%	6.8%	7.6%	7.5%	8.4%
Net profit margin	11.1%	12.5%	14.0%	14.9%	16.4%
Key Ratios					
ROE	6.5%	7.0%	7.6%	8.1%	8.9%
ROA	3.6%	4.0%	4.3%	4.7%	5.3%
Dividend Payout	70.8%	80.0%	120.2%	52.7%	73.9%
Dividend Yield	3.0%	3.8%	6.0%	4.3%	4.5%

PhillipCapital

Keppel Ltd

Grow recurring income, fortify balance sheet

Bull and Bear StocksBnB.com

SINGAPORE | CONGLOMERATE | UPDATE

- Acquisition of Aermont Capital will help Keppel gain a foothold in Europe and exposure to a wide network of investors, including sovereign funds, public pensions, endowments and foundations. Keppel will add S$24bn fund under management, to a total of S$77bn, bringing it closer to its target of S$100bn by 2026.
- Asset monetisation is expected to gain pace in FY24e. Keppel's target is to divest S$5bn-7bn of assets, either through outright sale or by injecting them into funds under its management (FUM) in 2024-2026. Lower interest rates are a shot in the arm for asset value enhancement, easier credit for investments/divestments, and an improved fund-raising environment.
- Maintain BUY with a TP of S$7.52, derived from the SOTP model. Continued right-sizing of its balance sheet and growing funds under management could deliver more returns to shareholders.

Background

Keppel is a global asset manager and operator of assets in more than 20 countries. These assets cover critical infrastructure, and services for renewables, clean energy, decarbonization, sustainable urban renewal, and digital connectivity. Its fund management platform, which manages private funds and five listed REITs, managed S$53.2bn as at end Jun 23. Keppel intends to monetize a further S$5bn-7bn of assets by 2026. Assets worth S$12.4bn on its balance sheet can potentially be injected into the funds, thereby generating recurring fees and operating income on an asset-light model.

Investment Merits/Outlook

- **Aermont Capital will be its launchpad into Europe.** Keppel's acquisition of 50% Aermont Capital in 1H24e, with 100% control by 2028, will 1) add S$24bn to FUM; 2) build a foothold in Europe; and 3) expand its investor network of sovereign funds, public pension funds, endowments, and foundations. Keppel targets FUM to reach S$100bn by 2026 and S$200bn by 2030.
- **Asset monetization to gain pace in FY24e.** Assets that could be divested include 1) the legacy rigs under the Asset Co, which would return some S$4bn cash to Keppel; 2) mobile operator M1; 3) data centres; and 4) real estate. About S$5bn-7bn could be monetized by 2026.
- **Asset values are at an inflexion point as interest rates ease.** The risk of a decline in asset value has reduced as interest rates are expected to head lower in 2024. An improved credit environment could stimulate asset investments/divestments and animate fund-raising activities.
- **First-mover in Singapore's energy transition.** It has a 14% share of the Singapore energy sector. By 2028, it will run the country's first hydrogen-ready and most efficient power plant. Keppel has commenced the import of renewable electricity, building up to 1.4GW or 35% of Singapore's import target.

Recommendation

Our TP is based on sum-of-the-parts model. The company is focused on right-sizing its balance sheet through asset monetization, which we expect to be weighted in FY24e. A lower interest rate environment would improve the credit environment, spur deal flows and fund-raising.

2 January 2024

BUY (Maintained)

LAST CLOSE PRICE	SGD 7.070
FORECAST DIV	SGD 0.330
TARGET PRICE	SGD 7.520
TOTAL RETURN	11.0%

COMPANY DATA

BLOOMBERG CODE:	KEP SP
O/S SHARES (MN) :	1,762
MARKET CAP (USD mn / SGD mn) :	9428 / 12442
52 - WK HI/LO (SGD) :	7.27 / 4.45
3M Average Daily T/O (mn) :	3.32

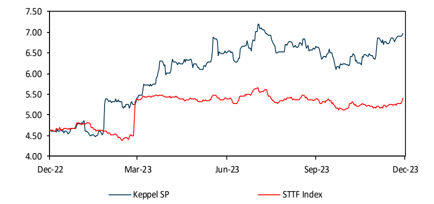
MAJOR SHAREHOLDER (%)

TEMASEK HOLDINGS	21.0%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	10.9	5.7	59.3
STTF RETURN	4.7	0.9	3.2

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (S$, 'mn)	FY21	FY22	FY23e	FY24e
Revenue	6,611	6,620	6,542	6,914
EBIT	1,129	565	615	633
NPAT	1,023	927	3,985	942
Dividend yield	4.7%	4.7%	4.7%	4.7%
P/NAV (x)	1.1	1.1	1.6	1.5
P/E (x)	12.6	13.6	3.1	13.2
ROE (%)	10.6%	6.9%	8.6%	10.5%

Source: Company, PSR

VALUATION METHOD

SOTP valuation

Peggy Mak (+65 6212 1852)
Research Manager
peggymak@phillip.com.sg

Financials

Income Statement

Y/E Dec, ($'mn)	FY20	FY21	FY22	FY23e	FY24e
Revenue	**6,574**	**6,611**	**6,620**	**6,542**	**6,914**
Materials and Subcontract costs	(4,591)	(5,082)	(5,174)	(5,103)	(5,393)
Staff costs	(1,120)	(665)	(668)	(654)	(691)
Depreciation and amortisation	(414)	(291)	(207)	(170)	(196)
Other items	(441)	556	(6)	-	-
EBIT	**8**	**1,129**	**565**	**615**	**633**
Investment income	29	105	49	36	80
Net finance expenses	(130)	(82)	(55)	(69)	(99)
Share of results of associates	(162)	459	536	580	621
Profit before tax	**(255)**	**1,611**	**1,095**	**1,162**	**1,235**
Taxation	(253)	(375)	(245)	(267)	(284)
Minority interests	2	16	5	3	2
Perpetual securities holders	0	-3	-12	-12	-12
Net Profit	**(506)**	**1,249**	**844**	**886**	**942**
Discontinued operations		(226)	83	3,099	
Profit attributable to owners	**(506)**	**1,023**	**927**	**3,985**	**942**

Per share data (S$)

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
BVPS	5.86	6.41	6.29	4.50	4.86
DPS	0.10	0.33	0.33	0.33	0.33
EPS	(0.28)	0.56	0.52	2.26	0.53

Cash Flow

Y/E Dec, ($'mn)	FY20	FY21	FY22	FY23e	FY24e
CFO					
Pretax profit	**290**	**1,611**	**1,095**	**1,162**	**1,235**
Adjustments	(251)	(1,283)	(773)	(377)	(406)
Working capital changes	595	(263)	426	146	54
Cash generated from ops	**633**	**65**	**747**	**931**	**883**
Others	(185)	(106)	(235)	38	54
Cashflow from ops	**448**	**(40)**	**512**	**969**	**937**
CFI					
CAPEX, net	(488)	(615)	(696)	(600)	(580)
Others	(32)	2,383	(249)	1,801	-
Cashflow from investments	**(519)**	**1,768**	**(946)**	**1,201**	**(580)**
CFF					
Dividend paid	(297)	(357)	(688)	(4,149)	(311)
Proceeds from borrowings, net	1,028	(674)	(308)	1,000	-
Proceeds from equity issuance	-	-	-	-	-
Others	(18)	385	(500)	-	-
Cashflow from financing	713	(646)	(1,496)	(3,149)	(311)
Net change in cash	641	1,082	(1,929)	(980)	47
Cash at the start of the period	2,008	2,408	3,544	1,445	163
Currency translation	(10)	53	(170)	-	-
Others	(232)	-	-	(302)	-
Ending cash	**2,408**	**3,544**	**1,445**	**163**	**210**

Source: Company, PSR estimates

Balance Sheet

Y/E Dec, ($'mn)	FY20	FY21	FY22	FY23e	FY24e
ASSETS					
PPE & Investment Properties	6,973	6,830	5,501	5,931	6,315
Others	10,745	10,647	10,554	13,924	14,205
Total non-current assets	**17,717**	**17,477**	**16,055**	**19,855**	**20,520**
Cash and cash equivalents	2,480	3,617	1,142	163	209
Stocks	4,959	4,604	2,301	2,111	2,151
Contract assets	2,657	3,170	256	256	256
Others	4,292	2,399	1,620	1,973	2,040
Total current assets	**14,389**	**14,318**	**5,319**	**4,503**	**4,656**
Assets - held for sale	1,009	528	9,561		
Total Assets	**33,115**	**32,323**	**30,935**	**24,358**	**25,176**
LIABILITIES					
Trade and other payables	4,604	4,957	2,786	2,679	2,839
ST borrowings	4,433	4,659	3,578	4,578	4,578
Others	3,050	2,219	772	781	798
Total current liabilities	**12,086**	**11,835**	**7,136**	**8,037**	**8,214**
LT borrowings	7,607	6,796	6,603	6,603	6,603
Others	1,026	1,174	1,058	1,058	1,058
Total non-current liabilities	**8,748**	**8,008**	**7,662**	**7,662**	**7,662**
Liabilities - held for sale	115	38	4,224	-	-
Total liabilities	**20,950**	**19,882**	**19,022**	**15,699**	**15,876**
EQUITY					
Share Capital	1,306	1,306	1,306	1,306	1,306
Treasury shares	-14	-5	-456	-456	-456
Retained profits	9,436	10,354	10,329	7,077	7,720
	10,728	11,655	11,178	7,927	8,570
Others	427	786	735	732	730
Total equity	**11,156**	**12,441**	**11,913**	**8,659**	**9,300**
Total equity and liabilities	**32,106**	**32,323**	**30,935**	**24,358**	**25,176**

Valuation Ratios

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	-25.6	12.6	13.6	3.1	13.2
P/B (x)	1.2	1.1	1.1	1.6	1.5
EV/EBITDA (x)	53.4	14.6	28.0	29.9	28.2
Dividend yield (%)	1.4%	4.7%	4.7%	4.7%	4.7%
Growth & Margins (%)					
Growth					
Revenue	-13.3%	0.6%	0.1%	-1.2%	5.7%
EBITDA	-66.3%	236.9%	-45.7%	1.7%	5.7%
EBIT	-99.1%	nm	-50.0%	8.9%	2.9%
PBT	-126.7%	nm	-32.0%	6.1%	6.3%
Margins					
EBITDA margin	6.4%	21.5%	11.7%	12.0%	12.0%
EBIT margin	0.1%	17.1%	8.5%	9.4%	9.2%
Net profit margin	-7.7%	18.9%	12.7%	13.5%	13.6%
Key Ratios					
ROE	-4.4%	10.6%	6.9%	8.6%	10.5%
ROA	-1.6%	3.8%	2.7%	3.2%	3.8%
Net Gearing (%)	85.7%	63.0%	75.9%	127.2%	118.0%

Singapore Stocks Coverage	Recommendation	Target Price (S$)	Analyst
BRC Asia	BUY	1.99	Peggy Mak
CapitaLand Ascott Trust	ACCUMULATE	1.04	Darren Chan
CapitaLand Investment Limited	BUY	3.68	Darren Chan
China Aviation Oil	BUY	1.01	Peggy Mak
City Development	BUY	8.22	Darren Chan
ComfortDelGro	BUY	1.57	Paul Chew
DBS	BUY	41.6	Glenn Thum
Elite Commercial Reit	BUY	£0.36	Liu MiaoMiao
Frasers Centrepoint Trust	ACCUMULATE	2.29	Darren Chan
HRnetGroup	BUY	0.88	Paul Chew
Hyphens Pharma	BUY	0.35	Paul Chew
Keppel DC REIT	BUY	2.26	Darren Chan
Keppel Ltd	BUY	7.52	Peggy Mak
Lendlease Global Comm. REIT	BUY	0.86	Liu MiaoMiao
LHN Ltd	BUY	0.39	Paul Chew
NetLink NBN Trust	NEUTRAL	0.87	Paul Chew
OCBC	BUY	14.96	Glenn Thum
Pan-United	BUY	0.5	Peggy Mak
Prime US REIT	BUY	0.37	Darren Chan
PropNex	ACCUMULATE	1.16	Paul Chew
Q&M Dental	ACCUMULATE	0.34	Paul Chew
Raffles Medical Group	NEUTRAL	1.02	Paul Chew
SATS Ltd	REDUCE	2.23	Peggy Mak
Sasseur REIT	BUY	0.9	Liu MiaoMiao
Sembcorp Industries	ACCUMULATE	6	Peggy Mak
SGX	BUY	11.71	Glenn Thum
Sheng Siong	BUY	1.8	Paul Chew
Silverlake Axis	BUY	0.38	Glenn Thum
SIA	REDUCE	5.45	Peggy Mak
Singtel	BUY	2.8	Paul Chew
StarHub	ACCUMULATE	1.21	Paul Chew
ST Engineering	BUY	4.5	Peggy Mak
Suntec REIT	BUY	1.47	Liu MiaoMiao
ThaiBev	BUY	0.67	Paul Chew
Uni-Asia Group	ACCUMULATE	0.94	Paul Chew
UOB	BUY	35.9	Glenn Thum
Valuetronics	BUY	0.7	Paul Chew
Venture Corp	NEUTRAL	12.5	Paul Chew

Contact Information (Singapore Research Team)

Head of Research
Paul Chew – paulchewkl@phillip.com.sg

Research Admin
Qystina Azli - qystina@phillip.com.sg

Technical Analyst
Zane Aw – zaneawyx@phillip.com.sg

Property | REITs
Darren Chan – darrenchanrx@phillip.com.sg

Banking & Finance
Glenn Thum – glennthumjc@phillip.com.sg

Credit Analyst
Shawn Sng – shawnsngkh@phillip.com.sg

Property | REITs
Liu Miaomiao – liumm@phillip.com.sg

Conglomerate | Transport
Peggy Mak – peggymak@phillip.com.sg

US Tech Analyst (Software/Services)
Ambrish Shah – amshah@phillipventuresifsc.in

US Tech Analyst (Digital Media & Entertainment)
Jonathan Woo – jonathanwookj@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE
Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

MALAYSIA
Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

HONG KONG
Phillip Securities (HK) Ltd
11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

JAPAN
Phillip Securities Japan, Ltd.
4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

INDONESIA
PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

CHINA
Phillip Financial Advisory (Shanghai) Co Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

THAILAND
Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

FRANCE
King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

UNITED KINGDOM
King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

UNITED STATES
Phillip Capital Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

AUSTRALIA
Phillip Capital Limited
Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 8633 9803
Fax +61-03 8633 9899
Website: www.phillipcapital.com.au

CAMBODIA
Phillip Bank Plc
Ground Floor of B-Office Centre,#61-64,
Norodom Blvd Corner Street 306,Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

INDIA
PhillipCapital (India) Private Limited
No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

TURKEY
PhillipCapital Menkul Degerler
Esentepe Mah. Harman 1 Sk.
Nida Kule Kat 3-12 Levent-Şişli
34394, İstanbul Turkey
Tel: +90 (212) 239 10 00
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

DUBAI
Phillip Futures DMCC
Member of the Dubai Gold and
Commodities Exchange (DGCX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

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